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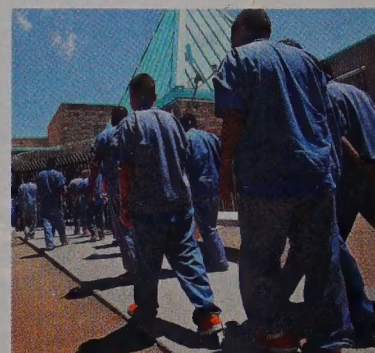
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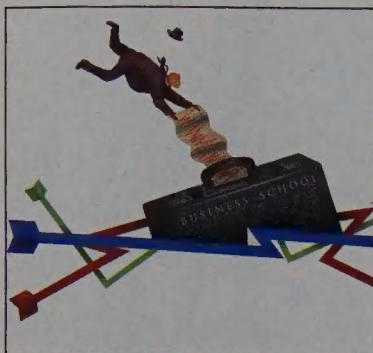


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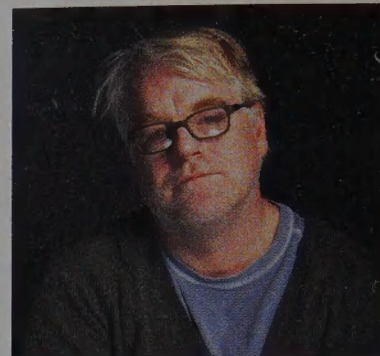
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Philip Seymour Hoffman

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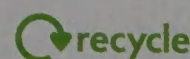
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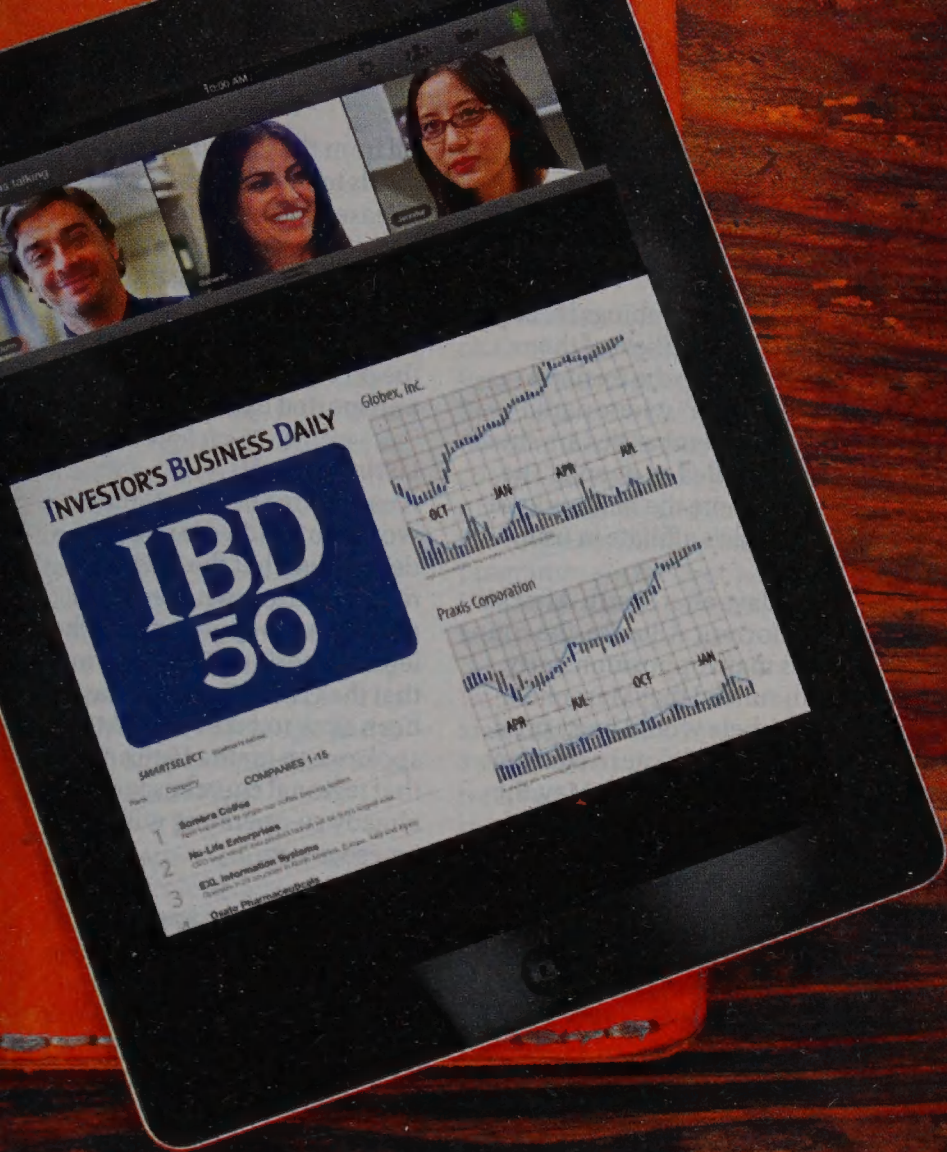
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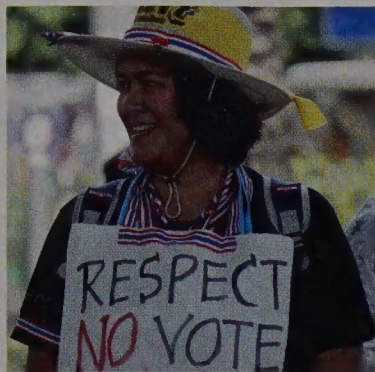
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Politics



Thailand held an election amid continuing protests by those opposed to the government of Yingluck Shinawatra. Despite a boycott by the opposition, 90% of the polling stations were open and turnout was nearly 50%. But that may not be enough to produce the quorum of MPs required to vote in a new government.

North and South Korea announced that reunions for families separated after the Korean war would be held later this month for the first time since 2010. But the North soon threw that into doubt by complaining about annual military drills involving American and South Korean troops.

A senior American official called on China to “clarify or adjust” its claims in the **South China Sea** in accordance with international law. Daniel Russel said China’s vague territorial claims had created “uncertainty, insecurity and instability”.

A governor appointed to **Japan’s** public broadcaster, NHK, by Shinzo Abe, the prime minister, denied that the Japanese army was responsible for the 1937 massacre of civilians in the Chinese city of Nanjing. His comments came just days after the new head of NHK said that the Japanese army’s use of sex slaves during the second world war was a common practice in any country at war.

A volcano in the west of **Indonesia** erupted, killing 16 people. Mount Sinabung had been spewing ash into the air for months; tens of thousands have been evacuated.

Chinese scientists expressed concern about a new strain of **bird flu** after an elderly woman died and another person became ill. H10N8 is the fifth new influenza strain to emerge in 17 years. China has already been coping with an outbreak of a similar virus, called H7N9, which has killed around a quarter of those infected.

Surprises in Central America

The ruling FMLN did better than expected in a presidential election in **El Salvador**. Its candidate, Salvador Sánchez Cerén, beat his rival from the right-wing Arena party by ten points. But the left-winger fell just short of the 50% required to avoid a run-off, which will be held next month.



Costa Rica also held a presidential election, which saw an even bigger upset. Luis Guillermo Solís, a centre-left anti-corruption campaigner whom pollsters had declared an outsider, came first. He will face Johnny Araya of the ruling National Liberation Party in a second round in April.

Colombia sacked its head of army intelligence, after an investigation found evidence that the army had spied on government officials negotiating with the country’s FARC guerrillas. Talks have been going on for more than a year to try to end Colombia’s half-century of conflict.

Jihadists falling out

Al-Qaeda’s leadership announced that it was cutting links to the Islamic State of Iraq and al-Sham (Greater Syria), better known as ISIS, an extreme jihadist group fighting in both **Syria** and neighbouring Iraq. The group had repeatedly disobeyed al-Qaeda’s chief,

Ayman Zawahiri, defying his order to leave Syria, where Jabhat al-Nusra, another affiliate of al-Qaeda, is also fighting.

A string of bombings hit Baghdad. The deadliest of them were close to the fortified “green zone” where parliament and embassies are situated and killed 32 people. The attacks bore the hallmarks of al-Qaeda’s affiliate in **Iraq**.

Five days after **South Africa’s** Democratic Alliance, the country’s main opposition party, announced that Mamphele Ramphele would be its presidential candidate in elections expected in April or May, the decision was reversed. The DA’s leader, Helen Zille, upbraided Dr Ramphele for changing her mind.

Election calculations

The Republican leadership in America’s House of Representatives outlined proposals for **immigration** reform, which has been languishing in Congress since June. The Republican plan emphasises border security but also gives undocumented immigrants some sort of legal status. Many in the party would rather the party stuck to complaining about problems with Obamacare in the mid-term elections.

In that vein, Republicans seized on figures forecasting that the labour force could shrink by 2.5m over the next decade because of **Obamacare**. This is partly because people will work less in order to qualify for low-income insurance subsidies or find they do not need their employer’s insurance.

The rate of **abortion** in America is at its lowest point since 1973, according to the Guttmacher Institute, a think-tank. There were 16.9 abortions for every 1,000 women aged 15-44 in 2011, far below the peak of 29.3 in the early 1980s. The drop coincides with a steep fall in pregnancy and birth rates.

A long-awaited assessment of the proposed **Keystone XL** pipeline, which would carry

oil from the Canadian tar sands to the Gulf coast, was released by the State Department. The report infuriated greens by suggesting the project would have no significant effect on carbon emissions as the oil would otherwise be transported by other means.

Lifting the veil

A committee of the UN that works on children’s rights demanded that the **Vatican** remove priests who are child abusers and report them to the legal authorities. Critics claim that the Catholic church has been slow to act in the past. A spokesman for the Vatican said that regional churches were already co-operating with investigators.

America’s ambassador to **Russia**, Michael McFaul, announced he was stepping down after just two years. Mr McFaul’s time in Russia has been marked by difficult relations between the two countries over the Edward Snowden affair and other strains on diplomacy. The Russian media often accused him of promoting regime change, for example by writing a book on “Russia’s Unfinished Revolution”.



One of the suspected organisers of the suicide-bombings in Volgograd was shot dead in Dagestan, a troubled region in the northern Caucasus. The suspect was apparently shot after he opened fire on security forces surrounding a house. The attacks in Volgograd killed 34 people, prompting concern about security at the **winter Olympics** in Sochi. In a recent video posted online by a group calling itself Vilayat Dagestan, two men warned President Vladimir Putin to expect a “present” at the games.

Business

Microsoft named Satya Nadella as its new chief executive. He has worked at the company for 22 years and headed its cloud-computing and enterprise division. Microsoft also replaced Bill Gates as chairman with John Thompson, who joined as a director in 2012 after running Symantec, a computer-security company, from 1999 to 2009. Mr Gates is staying on as an adviser to Mr Nadella as Microsoft redoubles its effort to catch up with Apple and Google in the shift from personal computers to mobile devices.

The European competition regulator's lengthy tussle with **Google** over its search business neared a conclusion. Google agreed, among other things, to promote the shopping services of three rivals, which will be "selected through an objective method" and "displayed in a way that is clearly visible to users". The provisional deal with the European Commission lifts the threat of a formal antitrust investigation into Google.

Twitter's share price slumped after its latest earnings revealed that the growth in its number of users had slowed for the fourth quarter in a row. Although revenues of \$243m in the last three months of 2013 beat expectations the company reported another net loss, of \$511m. After a successful IPO in November Twitter's market value had soared above long-established companies, such as Time Warner Cable, before this week.

Bears in the wood

Investors already spooked by the sell-off in emerging-market currencies took fright at weak data on manufacturing in America and China, feeding into fears about the prospects for global growth this year. The S&P 500 stockmarket index dropped by 2.3% on February 3rd, ending the day down by more than 5% from its record close on January 15th. January had already been the worst

start of the year for **stockmarkets** in many years. Japan's Nikkei index has fallen by 14% since January 1st.

Janet Yellen was sworn in as chair of America's Federal Reserve, succeeding Ben Bernanke, who has stepped down after eight years in charge. Mr Bernanke is returning to academia and has a new job in the economic-studies programme at the Brookings Institution, an august think-tank in Washington, D.C.

Trouble in paradise

Standard & Poor's downgraded **Puerto Rico's** credit rating to junk status. The American territory is burdened with \$70 billion in debt, an economy mired in recession and an unemployment rate of 15.4%. The island's government is making an effort to cut its budget deficit and tackle weighty public pensions, but S&P is concerned about its ability to raise cash.

Sony said that it now expects to post another annual loss for the financial year ending March 31st. The struggling Japanese electronics company also confirmed that it wants to sell its Vaio personal-computer division and will hive off its television business as a subsid-

iary. It is also selling fewer PlayStation 4 game consoles than it had forecast.

Caffeine jolt

Coffee prices continued to rally amid worries that a record heatwave in Brazil will damage harvests. Having fallen by 23% in 2013, the price of arabica coffee, a premium bean, has risen by a quarter since the start of the year.

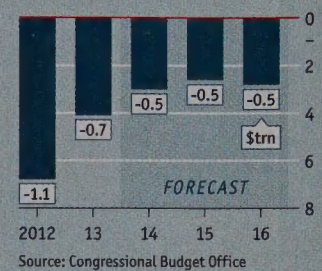
BP said that its cumulative pre-tax legal costs for the 2010 Gulf of Mexico oil spill were \$42.7 billion at the end of 2013. The energy company's headline profit fell by 22% last year, to \$13.4 billion, partly because of the continuing effects of selling off assets to help cover costs from the spill.

The **cigarette industry** received another blow when cvs became the first large drugstore chain in America to announce that it will quit selling tobacco, because it "is inconsistent with our purpose". Instead, it is launching a national programme to help its customers stop smoking.

Talks aimed at settling a dispute over \$1.6 billion cost overruns from expanding the **Panama Canal** ended without a resolution, according to

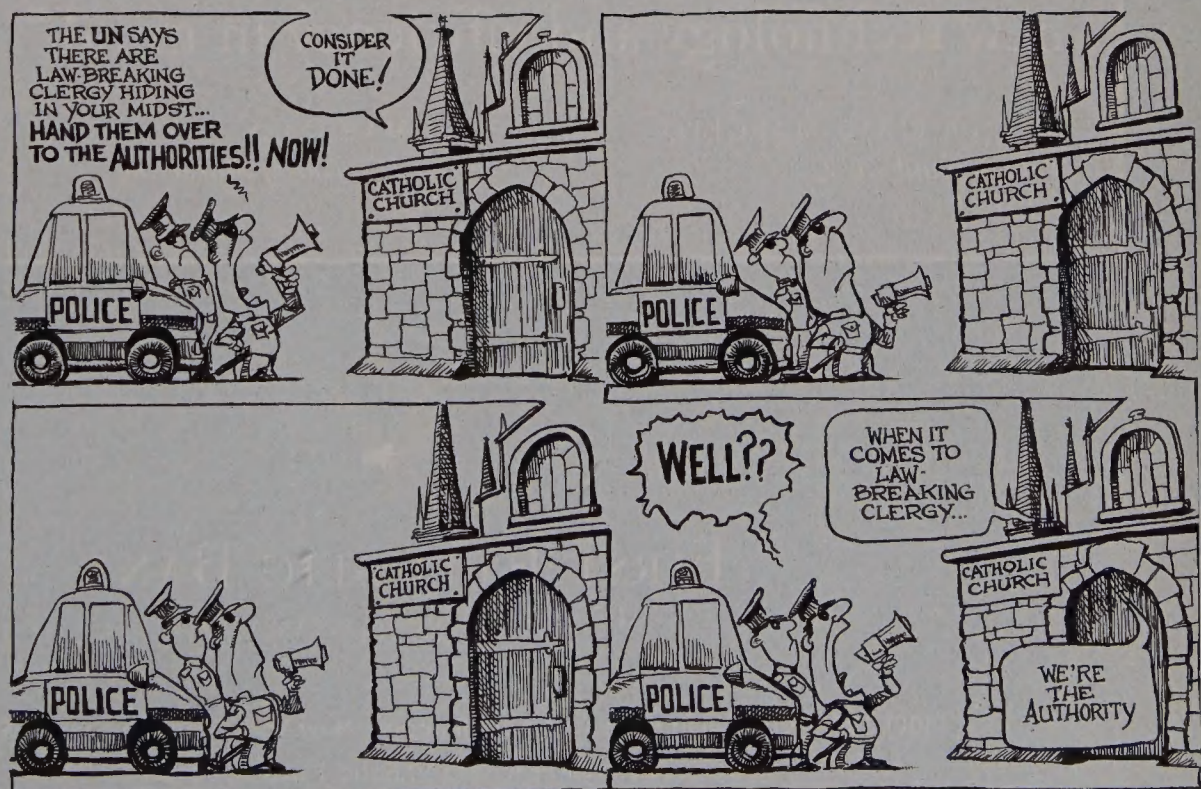
Sacyr, a Spanish construction company that is part of the consortium working on the project. The Panama Canal Authority has said work will continue "with or without" the consortium and be completed on time in 2015.

US budget deficit
As % of GDP



America's Congressional Budget Office forecast that the government's **budget deficit** would fall again this year to 3% of GDP—close to the average over the past 40 years—but would rise again after 2015 as spending outpaces GDP growth. The cumulative debt the government has borrowed to finance deficits is expected to reach 79% of GDP in 2024, up from 35% in 2007. This week Congress was urged to raise America's debt-ceiling limit again as the latest deadline approached.

Other economic data and news can be found on pages 84-85





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The worldwide wobble

The world economy will have a bumpy 2014. But the recovery is not, yet, at risk



FOR much of 2013 the world's big stockmarkets had a magical quality about them. They soared upwards—America's S&P 500 index rose by 30% last year, and Japan's Nikkei by 57%—buoyed by monetary stimulus and growing optimism about global growth. Over the past month, the magic has abruptly worn off. More than \$3 trillion has been wiped off global share prices since the start of January. The S&P 500 is down by almost 5%, the Nikkei by 14% and the MSCI emerging-market index by almost 9%.

That investors should lock in some profits after such a remarkable surge is hardly surprising (see page 67). American share prices, in particular, were beginning to look too high: the S&P finished 2013 at a multiple of 25 times ten-year earnings, well above the historical average of 16. A few bits of poor economic news of late are scarcely grounds for panic. It is hard to see a compelling economic reason why one unexpectedly weak report on American manufacturing, for instance, should push Japan's Nikkei down by more than 4% in a day. Far easier to explain the market gyrations as a necessary correction.

From supercal...to fragilistic

Prices always jump around, but in the end they are determined by the underlying economy. Here it would be a mistake to be too sanguine. Economists are notoriously bad at predicting sudden turning-points in global growth. Even if it goes no further, the dip in asset prices has hurt this year's growth prospects, particularly in emerging markets, where credit conditions are tighter and foreign capital less abundant. Tellingly, commodity prices are slipping too. The price of iron ore fell by more than 8% in January.

On balance, however, this newspaper's assessment of the evidence to date is that investors' gloom is overdone. A handful of disappointing numbers does not mean that America's underlying recovery is stalling. China's economy is slowing, but the odds of a sudden slump remain low. Although other emerging markets will indeed grow more slowly in 2014, they are not heading for a broad collapse. And the odds are rising that monetary policy in both Europe and Japan is about to be eased further. Global growth will still probably exceed last year's pace of 3% (on a purchasing-power parity basis). For now, this looks more like a wobble than a tumble.

The outlook for America's economy is by far the most important reason for this view. Since the United States is driving the global recovery, sustained weakness there would mean that prospects for the world economy were grim. But that does not seem likely. January's spate of feeble statistics—from weak manufacturing orders to low car sales—can be explained, in part, by the weather. America has had an unusually bitter winter, with punishing snowfall and frigid temperatures. This has disrupted economic activity. It suggests that all the figures for January, including the all-important employment figures, which were due to be released on February 7th after *The Econ-*

omist went to press, should be taken with a truckload of salt.

All the more so because there is no reason to expect a sudden spending slump. The balance-sheets of American households are strong. The stockmarket slide has dented consumer confidence, but investors' flight from risk has pushed down yields on Treasury bonds, which in turn should lower mortgage rates. Fiscal policy is far less of a drag than it was in 2013. All this still points to solid, above-trend growth of around 3% in 2014. One reason this may not excite investors is that it no longer implies an acceleration. America's economy was roaring along at a 3.2% pace at the end of 2013. The first few months of 2014 will be weaker than that, even though average growth for 2014 still looks likely to outpace last year's rate of 1.9%.

China's economy, for its part, is clearly slowing. The latest purchasing managers' index suggests factory activity is at a six-month low. The question is how far and how fast that slowdown goes. Many investors fear a "hard landing". Their logic is that China has reached the limits of a debt-fuelled and investment-led growth model; and that this kind of growth does not just slow but ends in a financial bust. Hence the jitters on news that a shadow-bank product had to be bailed out. Yet it remains more likely that China's growth is slowing rather than slumping. The government has the capacity to prevent a rout; and the recent bail-out suggests it is willing to use it.

If fears about a hard landing in China are exaggerated, then so are worries about a broad emerging-market collapse. That is because the pace of Chinese growth has a big direct impact on emerging economies as a whole. Expectations for Chinese growth will also be a big influence on the desire of foreigners to flee other emerging markets, and hence on how much financial conditions in these countries tighten. After more than doubling interest rates, Turkey's economy will be lucky to grow by 2% in 2014, compared with almost 4% in 2013. But in most places less draconian rate hikes will merely dampen a hoped-for acceleration in growth rather than prompt a rout.

The final, paradoxical, reason for guarded optimism is that the market jitters make bolder monetary action more likely in Europe and Japan (see page 68). With inflation in the euro area running at a worryingly low 0.8%, the European Central Bank (which met on February 6th after we went to press) needs to do more to loosen monetary conditions. Really bold action, such as buying bundles of bank loans, is more likely when financial markets are in a funk. That logic is even stronger in Japan, whose stockmarket has fallen furthest and where the economy will be hit by a sharp rise in the consumption tax on April 1st. So more easing is on the cards.

Still in need of a spoonful of sugar

If this analysis is correct, the current market pessimism could prove temporary. Investors should recover their nerve as they realise that the bottom is not falling out of the world economy. Our prognosis is a lot better than the outcome markets now fear. But it would not be much to get excited about. The global recovery will be far from healthy: too reliant on America, still at risk from China, and still dependent on the prop of easy monetary policy. In other words, still awfully wobbly. ■

Immigration

Barack Obama, deporter-in-chief

Expelling record numbers of immigrants is a costly way to make America less dynamic



OCTAVIO NAVA CABRERA was pulled over by police in Illinois in April 2013 for going through a stop sign. He had arrived in the state in 1986, aged 13, and most of his family still live there. He did not have a proper driving licence and had an im-

migration violation dating from 1997, when he was stopped at the border after a trip to Mexico. Mr Nava Cabrera was imprisoned for seven months and then deported, leaving a son behind. He is now sleeping on the floor of a friend's apartment in Mexico City and slightly baffled by the whole experience. "I don't know anything about Mexico," he says.

America is expelling illegal immigrants at nine times the rate of 20 years ago (see page 23); nearly 2m so far under Barack Obama, easily outpacing any previous president. Border patrol agents no longer just patrol the border; they scour the country for illegals to eject. The deportation machine costs more than all other areas of federal criminal law-enforcement combined. It tears families apart and impoverishes America.

The strongest economic arguments in favour of a more liberal immigration policy are techies like Satya Nadella, Microsoft's new Indian-born boss. Half of those who earn science and technology PhDs at American universities are foreign-born, as are the authors or co-authors of four-fifths of drug patents. America's reluctance to allow foreign graduates to stay in the country when they finish college will reduce its chances of bagging future Mr Nadellas. Yet the unskilled immigrants who are being shipped back to Mexico enrich America too. They work, pay taxes and fill niches that the native-born shun. Farms, hotels and restaurants depend on them; so do professional couples who need someone to hold the children while Dad writes code and Mum drills teeth.

Why would a supposedly liberal president oversee something so illiberal, cruel and pointless? The Machiavellian explanation is that it motivates Latinos, who associate such barbarism with Republicans, to keep voting for the Democrats. Mr Obama's defenders prefer two other excuses.

First, he is merely following laws written by nativist Republicans. This is a cop-out. As president he sets priorities for the executive branch, which cannot catch and prosecute everyone who breaks any of the gazillions of federal rules. He can find ways to slow the deportation of harmless immigrants and concentrate on those who have committed serious crimes. He has already delayed action against those who arrived as children.

More visas, fewer expulsions

The second excuse is that this is all part of Mr Obama's grand strategy to secure immigration reform this year, including a path to legal status for the 12m illegal immigrants now in the country. There is room for a deal (see page 30). The House Republicans have long believed that letting in more people like Mr Nadella is a good thing, and they are inching towards some sort of amnesty process for undocumented workers like Mr Cabrera. They still dislike the idea of illegal immigrants becoming citizens (and voting for Democrats), while the Democrats are suspicious of temporary-worker schemes. These differences would be bridgeable, with a little trust. Given its absence, Mr Obama will only win Republican votes by showing that the border is secure.

Immigration reform is indeed a great prize. But die-hard nativists are unlikely to be swayed, no matter how tough the laws, and reform can pass without their votes. There are very few things about America that are as vindictive and self-defeating as its deportation machine. Rather than making excuses for keeping it, Mr Obama should be exposing its awfulness and leading the campaign to de-fang it. ■

The European Commission

Lagarde for president

If ever Europe needed a competent reformer with new ideas, it is now



CHANCES for a new beginning in Europe are rare and should be seized. In the coming months, after five can-kicking years of crisis and austerity, the European Union will clean out its executive suite and appoint new presidents of the European

Commission (the EU's executive arm) and European Council (representing national governments), as well as a new foreign-policy chief.

The EU desperately needs a fresh vision. Its citizens are disenchanted with the remote machinations inside Brussels. In-

surgent political parties, many of them anti-EU, are snapping at the heels of the centrists. If the EU were a company, its board would have been sacked: if it were a football team, it would have been relegated. It needs new leadership.

Unfortunately, Europe's leaders have not got the message. The names being canvassed for commission president include two former prime ministers of smallish countries, Jean-Claude Juncker (Luxembourg) and Guy Verhofstadt (Belgium), an assortment of obscure European commissioners and the president of the dysfunctional European Parliament, Martin Schulz of Germany. It is an uninspiring list of Eurocrats, still mouthing nostrums about ever-closer union.

One person—who is not a declared candidate—would be far ►►

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better: Christine Lagarde, head of the IMF. She is a French former finance minister, yet her years in Washington dealing with the euro crisis, as well as running a huge law firm in Chicago, give her the clarity of an outsider's view about what is wrong with the EU. A liberal, she would be keen to complete the single market, promote free trade and cut the burden of regulation. She is also a persuasive saleswoman in both French and English, a bonus given her own country's sour view of the EU and Britain's possible referendum on whether to leave.

One supposed mark against Ms Lagarde is that, unlike the present commission president, José Manuel Barroso, and his two predecessors, she has never been elected. But the most effective recent commission president was not a former prime minister, but Jacques Delors, another French former finance minister, who—although for a while a member of the European Parliament—was also a technocrat. And the job now needs the skills of a technocrat as much as of a politician. (The place for a former prime minister is the presidency of the European Council; Mario Monti, a reforming Italian leader who also served as a commissioner, might do that job well.)

The bigger obstacle to Ms Lagarde becoming commission president lies in the Lisbon treaty. This says that the European Council, mindful of European elections (which are due in May), must nominate a candidate whom the European Parliament then “elects” as president. Political groups in the parliament are exploiting this to put forward their preferred choices now—Mr Schulz for the centre-left Socialists, Mr Verhofstadt for the centrist Liberals and, next month, a front-runner for the

centre-right European People's Party (EPP) who seems likely to be Mr Juncker. The claim is that this process will seem more democratic to ordinary Europeans.

Dream on. Most European voters neither know nor care who any of these people are or what they stand for. The suggestion that EU leaders should accept the candidate of whichever political group gets most seats in May is a recipe not just for ending up with the wrong person, but also for making the commission even more beholden to the parliament.

Don't let the parliament decide

There is a way through this muddle. As it happens, Ms Lagarde comes from the centre-right EPP, which is likely to remain the biggest group in the parliament. The open support of Europe's three main leaders would probably get her the job. France's president, François Hollande, is a Socialist, but he would surely welcome a French president. David Cameron knows he is far more likely to win a referendum with a reformer like Ms Lagarde as the face of Europe. Angela Merkel also wants a more open Europe, and her policy of appointing dull unknowns to EU posts has hardly been a resounding success.

The argument for Ms Lagarde is similar to that two years ago for making Mario Draghi president of the European Central Bank: he brought outside experience, market knowledge and good ideas. To many then he seemed tainted by his link to an American investment bank, Goldman Sachs, but he is now the most respected Eurocrat of all. So ignore the parliament, Mrs Merkel, and pick the best woman for the job. ■

China's environment

A small breath of fresh air

The government gives its Davids a sling to use against polluting Goliaths



WHEN, in 2008, the American embassy in Beijing started publishing a measure of the fetid smog enveloping the capital, China's government protested and ordered the publication to stop. Its instinct was to sweep unwelcome facts about

the nauseating level of pollution in the country under the carpet. Now that seems to be changing. New rules on pollution say that official data, formerly held secretly, should be published. It is an important step, not just for China's environment, but also because it gives new power to the large and growing movement of citizen activists who have been lobbying for the government to clean up.

China is now emitting almost twice as much carbon dioxide as the next-biggest polluter, America. At current rates, it will produce 500 billion tonnes of carbon dioxide between 1990 and 2050—as much as the whole world produced between the start of the Industrial Revolution and 1970. Pollutants in the air in Beijing have hit 40 times the level decreed safe by the World Health Organisation. Yet China did not have a ministry devoted to environmental protection until 2008, and the government has done its best to keep information about the levels of filth in the air and water under wraps. Even now, the state is keeping secret a nationwide survey of soil pollution.

The new rules that have just come into effect signal the beginning of a move towards openness. They require 15,000 enterprises, including some of the biggest state-owned ones, to make public in real time details of their air pollution, waste water and heavy-metals discharges (see page 44). In the past, polluters gave the data on their emissions only to the government. In future NGOs such as the Institute of Public and Environmental Affairs, run by Ma Jun, a former investigative journalist who has been badgering the government on green issues for years, will get these data to analyse and publicise as they wish. Things are opening up at a local level, too. In 2012 only a few cities, including Beijing, published statistics on air quality. Now 179 do. And more firms are volunteering information about pollution—especially those that need foreign investors.

Unwilling liberals

The impetus behind this new transparency is not a sudden enthusiasm for liberalism. Rather, the government is worried that people are increasingly angry about pollution—a recent Pew survey of the concerns of Chinese citizens found that pollution was fourth, behind inflation, corruption and inequality, but was rising fast—and attempts to clean the country up by central-government fiat are foundering.

The government sets a national target for carbon-dioxide emissions per unit of GDP. It determines how much coal may be burned. It requires companies to install certain pollution-



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control devices. But all these rules—like most Chinese environmental controls—operate through the central-planning system. And that system is subject to “regulatory capture”—getting nobbled by the enterprises it is supposed to control and by the local governments who own or influence them. Factories evade targets by, for example, operating illegally at night, or by dissolving carbon-dioxide or sulphur emissions in water—and then dumping the toxic brew in the local water supply.

More public disclosure will not, by itself, end such baleful practices. But by exposing levels of pollution to public scrutiny, it will allow people to make better-informed choices, to lobby factories and officials for change and to keep an eye on the implementation of environmental laws. The new rules should thus expose polluters to a scissor-style pressure: from above, through the central-planning system, and from below, from

the media and organisations such as Mr Ma’s.

Much more is needed. Cracking down on polluters will require provincial or city governments to fine them or take them to court—which they will be reluctant to do, since they often own them. The new disclosure rules have only milk teeth, not real bite. They talk, for example, merely of “urging” enterprises to fulfil “due responsibilities”. And, just as the government is encouraging bottom-up activism on environmental matters, it is cracking down on China’s hyperactive microbloggers.

This points to a tension at the heart of China. The government is nervous of active citizens, yet it needs them. If it gives them more freedom, they can be more useful; if it suppresses them they may be easier to control. These new environmental rules are a move in the right direction. For China’s sake, may there be many more. ■

Organised crime

Dealing with the devil

Should a government ever do a deal with gangsters? In El Salvador, on balance the answer is yes



IF YOU ran a country and had to find a reliable partner to fight crime, you would probably not choose Carlos Mojica Lechuga. The ageing leader of one of El Salvador’s two fearsome street gangs is now safely behind bars. But for years his mob,

Barrio 18, and its deadly rival, the Mara Salvatrucha, made war-zones of many poor parts of El Salvador, as well as terrorising a fair few districts in the United States, where the gangs were formed. Mr Mojica himself has been accused of ordering the decapitation of a teenage girl, whose body was then mutilated with a floor-polishing machine.

Yet in March 2012 President Mauricio Funes took a risk on Mr Mojica. The government brokered, somewhat shiftily and at arm’s length, a truce between the two gangs. In return for them giving up the killing, it has moved the gangs’ incarcerated leaders to lower-security prisons and created jobs in bakeries and farms for their members. Since then, in a region where the murder rate is climbing, El Salvador’s has fallen by half, saving perhaps 4,000 lives in two years (see page 35).

Was it worth it? That is an immediate question in El Salvador, which held the first round of its presidential election on February 2nd. But neighbouring Honduras and Belize have experimented with similar pacts. Last month Mexico’s government joined forces with a band of vigilantes to try to drive out a drug cartel. By contrast, although police in some American cities turn a blind eye to gangs if they keep the peace, the idea of a formal deal is anathema in the rich world. The United States is uneasy about the Salvadorean truce.

The opponents of such pacts say they erode faith in already-weak justice systems and bolster gangsters’ standing. El Salvador’s swaggering kingpins have been allowed to act like community leaders, at one point holding press conferences in their prisons. And though they have stopped killing each other, they have shown little interest in giving up crimes such as extortion, which ruins lives. Polls show that most Salvadoreans dislike the deal. Although Mr Funes is not running again, his

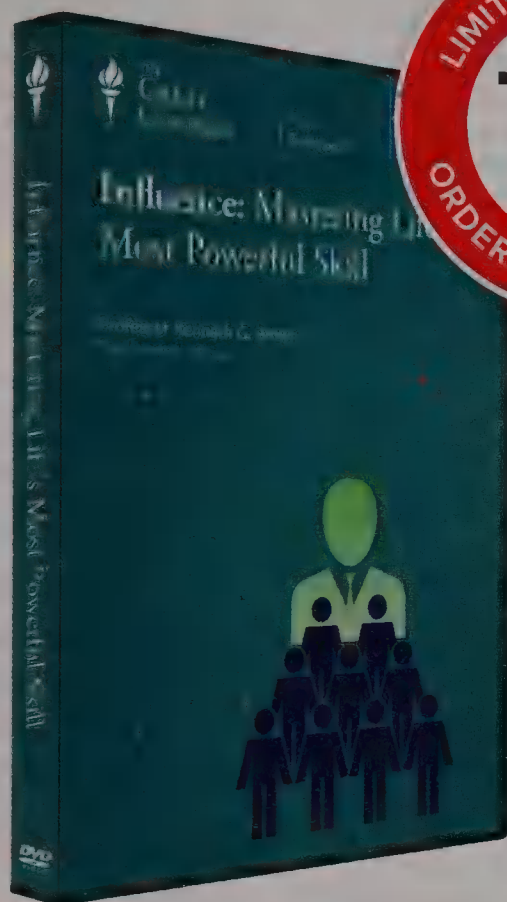
vice-president, Salvador Sánchez Cerén, is stuck in a run-off, despite avoiding talking about the truce in the campaign.

That does not mean the truce was a mistake. In a country as weak as El Salvador, “zero tolerance” policing of the sort pioneered in New York does not work. The truce followed decades of *mano dura* (“iron fist”) policies, which succeeded only in turning El Salvador’s squalid prisons into heaving universities of crime. When cracking down failed, governments tried *súper mano dura*, but that did not work either. The year before the truce, the country of 6m endured more murders than all of western Europe. The ceasefire has let children cross gang turf to go to school and adults go to work without fear of attack. Though Salvadoreans dislike the truce, they also seem unimpressed by the iron fist: in the election on February 2nd the right-wing opposition, which had promised a tough line on the gangs, did worse than expected.

From fist to handshake

The next president will face a choice. The gangs have offered to extend the pact’s terms, to stop recruiting in schools and to cease telephone extortion (a phishing-type ruse, conducted from prison). Their demands—more jobs and better prison conditions—are not especially sinister. Meanwhile, as the commitment of politicians to the deal has wavered, so has that of the gangs: the murder rate has already started to creep back up. With the promise of state-backed jobs starting to evaporate, mobsters are returning to illegal sources of income.

That argues for extending the truce, but doing so in a different way. First, the government should use the time to build up institutions—not just the police, but also schools to help give youngsters an alternative career; it could provide more cash to get firms to hire people from the *barrios*. Second, this time, the government must play it straight. It failed to spell out the terms of the deal, at first barely acknowledging its existence and later only reluctantly releasing details. If elected, Mr Sánchez Cerén, a former guerrilla, should bring the agreement into the open, explaining how the lull in violence can be used to strengthen communities vulnerable to the gangs’ reach. The truce has saved lives. But the deals must be done in daylight. ■



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Cattle prod

SIR — “Meat and greens” (January 18th) was a valuable contribution to the debate on environmental issues regarding livestock. However, the article gave the impression that the only way to reduce greenhouse-gas emissions connected to farming livestock in the developing world is to abandon small farms and pastoral herding and switch to factory or industrial-style operations. Actually, much research calls for a move to more sustainable, market-oriented farming. By adopting better feeds, breeds and grazing practices, for example, the 1 billion poor who keep livestock can greatly reduce their climate hoofprints and still improve their livelihoods and nutrition.

We need to stop treating farm animals as equivalent the world over. After all, a cow in east Texas that provides another steak dinner for a rich, overfed family and a cow in east Africa that provides just enough milk to meet the minimum nutritional needs of a poor family are very different things. There simply is no moral equivalent between those making poor food choices and those with no food choices at all.

JIMMY SMITH
Director-general
International Livestock
Research Institute
Nairobi

Still the Golden State

SIR — Schumpeter’s column on California (January 25th) noted the “rush of businesses” out of the state. However, more than 60% of jobs that move out of California are offset by jobs moving in. More importantly, the annual net loss of jobs due to out-migration is just 0.05% of California’s job base. More than 98% of job creation and loss in California is because of businesses opening, closing and expanding or shrinking in place, not job migration.

Any discussion of California’s economy or business climate should start with the right facts. Looking at employment overall, job growth in

California has equalled the American average both over the past year and over the past 20 years. California’s GDP growth surpasses America’s as a whole both recently and over the longer-term.

California’s economy may be falling short of its potential and of its own past golden age, but what is most striking is that the state’s growth keeps pace with America’s, despite onerous regulations, taxes and, above all, housing costs.

JED KOLKO
San Francisco

Man against the machine

SIR — You were right to analyse the threat to jobs posed by technology (“The onrushing wave”, January 18th). It is worth stressing that the capital substitution for labour is largely not through “machines” but through intangibles such as intellectual property (IP), business models, algorithms, data aggregations and now also digital currencies. As one example, the lion’s share of the iPhone’s profits accrues to the owners of the IP, rather than the owners of the machines that make the smartphones. Equally, the vast share of the profits from the chips that are used to power smart devices accrue to the owners of the patents on various circuit components that constitute the chip.

I also agree that we must indeed increase our understanding of how education, the workplace and society are to be reformed to meet the challenge of the digital age.

VLADIMIR ZWASS
Editor-in-chief
Journal of Management
Information Systems
Saddle River, New Jersey

SIR — At some level, the mean native intelligence of any species is limited by its genes. Human genes have not changed appreciably in the brief history of civilisation. Exploiting native intelligence to meet the needs of the Industrial Revolution and the post-war technology revolution required only seeking out the overlooked and undereducat-

ed talent in the working class. Now that we are sending more than half the entire population to college, the native intelligence of our species may be a limiting resource for an increasingly complex society. Exhorting students to be more conscientious so that we can give them postgraduate degrees won’t be enough.

The information revolution is already letting employees punch above their IQ in many fields, so it is both the source of and the solution for this problem. But that risks turning a whole new class of workers into relatively mindless, under-appreciated and underpaid drones.

The next generation of revolutionaries may be targeting the intelligentsia rather than aristocrats or capitalists.

GERALD LOEB
Professor of biomedical
engineering
University of Southern California
Los Angeles

SIR — Another important factor is urbanisation. Migration in developing countries and the renewal of city centres in America and Europe has resulted in more urban dwellers who are big consumers of services such as laundromats, restaurants, cafés, gyms and theatres. Plenty of jobs are created that are difficult to be replaced by machines.

For example, coffee-vending machines have been around for decades, yet more coffee shops exist now than at any other time in the past.

JOHANNES MAURITZEN
Post-doctoral researcher
Norwegian School of Economics
Bergen, Norway

SIR — It is a myth that the workingman’s lot did not improve during the early decades of the Industrial Revolution. Wages may not have risen much, but England’s agricultural regions in 1800 were vast areas of disguised unemployment. Labourers left the farms, where wages were too low to measure and work was intermittent at best, for industrial work where wages were higher and employment was regular.

The improvement in living standards is documented in Emma Griffin’s, “Liberty’s Dawn”.

PAUL DEROSA
Tenafly, New Jersey

SIR — By stating that “the real shortage is of the right skills, rather than of jobs” (“All hands on deck”, January 18th), you neglect the fact that the quantity of the unemployed vastly outnumber the quantity of job openings. In America the ratio of the unemployed to total job openings is 2.7 to 1.

KENNETH GOOD
Pittsburgh

SIR — Erik Brynjolfsson and Andrew McAfee relayed an apocryphal exchange between Henry Ford II and Walter Reuther, the president of the United Automobile Workers, in their “Race Against the Machine”. Both men are touring a modern car factory when Ford jokingly jabs at Reuther: “Walter, how are you going to get these robots to pay UAW dues?” Not missing a beat, Reuther responds: “Henry, how are you going to get them to buy your cars?”

JIM SEVERANCE
Loganville, Wisconsin

Erotic corn

SIR — Being a fan of anagrams, I enjoyed your ingenious description of research on artificial-intelligence algorithms, which you erroneously called “logarithms” (The world this week, February 1st). In the same spirit, please inform the proof dearer of your sewn paper that I eagerly anticipate more word mages the next mite I relax in my living moor and nope your electronic pap on my paid.

HAROLD BOAS
Professor of mathematics
Texas A&M University
College Station, Texas ■

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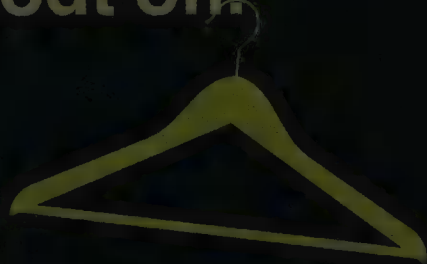
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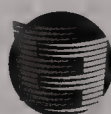
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Only those candidates selected for interview will be contacted.

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The great expulsion

SAN ANTONIO, TEXAS

Barack Obama has presided over one of the largest peacetime outflows of people in America's history

IT IS the drowsy after-lunch slot in one of San Antonio's immigration courts, housed anonymously on the third floor of a squat brown office building, when the case of Pedro Rochas begins. Most of the men who appear before immigration courts tend to favour hardly worn suits with matching shoes, as if going to church. Mr Rochas, a slight 33-year-old, is dressed less smartly in jeans and a red sweatshirt. He came to America at 16 and works as a part-time cook in a retirement home in Cedar Park, a town on the outskirts of Austin, where he met his wife. They have three children, all born in America. The offence that placed Mr Rochas in court on a cold day just before Thanksgiving was the purchase of a Social Security card, which allowed him to get work. He will probably be deported for it.

Last year America removed 369,000 undocumented migrants, an increase of nine times compared with 20 years ago (see chart 1 on next page). This takes the total number of the deported to almost 2m in Barack Obama's presidency.

While this has been going on, the number of people entering America illegally via the south-western border has dropped.

There are no official numbers on how many people become illegal immigrants by overstaying their visas. But the data that are collected, combined with estimates to fill the gaps, suggest that in the past couple of years, for the first time since people started to talk about illegal migration, the outflow has been greater than the inflow.

On one measure this is a great success. It is hard to find many areas where the federal government is so effective in implementing laws passed by Congress. Yet it is harmful—not just for the deported, who often have a miserable time once they are expelled (see box), but for the country they leave behind, something which even the deporters have come to recognise.

It is also a political problem for Mr Obama. The president was heckled while giving a speech on immigration in California in November by a man who shouted that he had the authority to halt the deportations and ought to use it. "Actually, I don't," replied Mr Obama: an unusual thing for a president to say. At the other end of the political spectrum, his administration is criticised for not deporting enough people. When the deportation numbers for 2013 were released Bob Goodlatte, the

chair of the House Judiciary Committee, said that the slight decline compared with the year before was "just more evidence that the Obama administration refuses to enforce our immigration laws."

How has a president who campaigned hard on migration reform come to preside over the expulsion of more migrants than ever? The government has long had the authority to expel undocumented migrants, but deporting them all is impractical (there are reckoned to be 11.7m). It has therefore chosen to concentrate on getting rid of criminals. This category is more elastic than it might seem. It was expanded in 1996, when a Republican-controlled Congress passed a tough immigration law and illegal border crossings were running at four times their current level.

That law reclassified several misdemeanours as "aggravated felonies" if they were committed by an illegal immigrant, lowering the legal barriers to deportation. The expanded list included stumbles that undocumented migrants are quite likely to make, such as failing to appear in court or having fake papers. It also removed time limits on these offences, so that crimes committed by teenagers could lead to deportation 20 years later. One government lawyer in San Antonio says that some of the cases he argues stretch back decades. "You can be in your 40s or 50s and have a marijuana conviction from 20 years ago and be deported for it," explains Doris Meissner of the non-partisan Migration Policy Institute.

The effects of this change in the law ►►

were limited at first. The year after it passed 115,000 people were deported. This is because the means to enforce it were not available. That changed after the September 11th 2001 terrorist attacks when, by an odd jump of logic, a mass murder committed by mostly Saudi terrorists resulted in an almost limitless amount of money being made available for the deportation of Mexican house-painters. America now spends more money on immigration enforcement than on all the other main federal law-enforcement agencies combined (see chart 2 on next page).

Much of that spending has created a border agency that can operate throughout the country. Before the September 11th 2001 attacks it was considered a threat to liberty for agencies to share too much information. After the report of the 9/11 Commission the opposite became true. The result is that Immigration and Customs Enforcement (ICE), the agency charged with doing the deporting, can now quickly determine whether someone serving a prison sentence for a serious crime is eligible to be deported when their time is up. More controversially, it also allows ICE to see whether someone charged by the police with relatively minor offences can also be deported.

Of the 369,000 people deported last year, roughly two-thirds were people who had been stopped while trying to cross the border. The rest—134,000 of them—were picked up in the interior of the country. One of them was Adrian Revuelta, 29, who had lived in Oklahoma for ten years and worked at IHOP, a pancake house, before being deported for driving without a licence. In jail, he says, his documents were torn up and his contact numbers, jacket and cap were thrown in the bin. Worst of all was his criminal record: "It means I can never go back." Yet all the time, he says, his brain is full of memories of his friends and colleagues in Oklahoma. On Facebook, he winces when people he knows talk about meeting at Denny's, or to play soccer. "It is like a knife stuck in my side," he says. "The way you are treated is not human."

The turning of police officers into immigration officials has brought border en-

forcement into areas of the country far from the deserts of the south-west. Secure Communities, the name given to the programme that links police work to the immigration database, began life in a single jurisdiction in Texas in 2008 at the end of George W. Bush's presidency. By May 2013 it was operating everywhere.

This worries some policemen. "I would sooner see Secure Communities go away," says Mark Curran, an Illinois sheriff. He thinks that the programme makes policing harder because it erodes trust between his officers and the people they are supposed to police. Anecdotal evidence suggests that

people are more likely to flee the scene of a car crash in places where there are lots of undocumented migrants to avoid being asked for their papers. Some people take more drastic steps to avoid triggering a match on the database. In November ICE arrested a doctor in Boston flew in regularly from the Dominican Republic to alter fingerprints. A full set of unrecognisable fingertips cost \$4,500.

While the police have been tracking down migrants, the Department for Homeland Security has continued to raid workplaces and audit companies to see if they employ undocumented workers. In ►►

Deported Mexicans

Bordering on cruelty

NUEVO LAREDO

United States expulsion policy toward migrants carries a big human cost

THEY are flown down to the Mexican border by the plane load, and then released across the bridge at night. They shuffle into Mexico wearing the look of defeat. Their shoes are untied and their trousers hang down; their laces and belts are in a plastic bag. Often these are all they carry.

Many have no papers. Some have no money. A few have lived so many years in the United States that they cannot even speak Spanish. All have wives, children or friends that they have left behind, yet they have been thrown out without so much as a change of clothes.

A government agency from the north-eastern state of Tamaulipas, the Tamaulipas Migrant Institute, offers them free telephone calls when in Mexico. They are shown on a map exactly where they are and offered discounted bus tickets to their home towns—if, that is, they decide not to try to cross the border again. "I'm not going back," one elderly man shouts out. "Better to go home. Up there, they don't want us any more."

Such comments may sound like vindication for the architects of the United States' deportation policy; it is designed to deter. The vast majority of foreigners expelled last year were Mexicans—322,900, according to Mexican government statistics. That is 11% below the year before, but it fails to capture the growing number of Central Americans also shipped back to Mexico—sometimes because they pretend to be Mexicans, in order not to be sent all the way home, and have no papers to prove otherwise.

So far, the social impact of the mass deportations appears to be greater than the economic one. According to Sarah Martínez Pellegrini of El Colegio de la Frontera Norte, a border university, people who benefited from remittances may

slip below the poverty line when the breadwinner is repatriated. The deportee may find it hard to get a job. In Michoacán, a south-western state where drug-related violence has been a focus of attention this year, some deportees have taken up arms and joined vigilante groups fighting drug gangs.

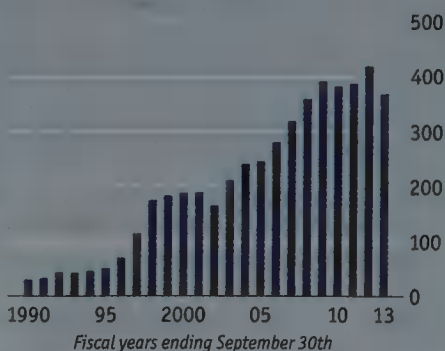
The Mexican government, meanwhile, is concerned about the rights of the deportees. Reyna Torres, a foreign-ministry official, says that some of those arrested are not given the chance to call a consul, nor sent to judges who specialise in migration cases. If they are held in detention for longer than 30 days, their documents, including IDs, are destroyed. She says there is "mistreatment and abuse" at the hands of firms subcontracted to handle detention and expulsion. Too often Immigration and Customs Enforcement, a federal body, shrugs off such abuses as the subcontractors' fault. The deportees are sent into Mexico often far from where they lived in the United States, adding to their disorientation.

Such was the case with Vasilio Martínez, a 39-year-old irrigation worker, who was caught in Arizona trying to return to his wife and five children in Washington state, where he had lived for nine years. Since he had been deported previously, he was jailed for 2½ years. Then he was shunted to deportation facilities in South Carolina and Georgia.

On the day he was repatriated to Nuevo Laredo—about 1,500km (950 miles) east of where he had originally crossed—he did not know where he was. All he knew was that the city had a reputation for drug violence. Instead of relief at being back in Mexico on his first day of freedom, he was terrified. And he had no idea when he would see his family again.

Out of here

Illegal alien removals, '000



Source: Department of Homeland Security



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► November Infosys, an Indian IT firm, agreed to pay fines of \$34m for immigration offences. Farmers who need lots of pairs of hands to pick things are favourite targets for these checks. Maureen Torrey, a farmer in New York state, says her business has been subjected to aggressive raids by immigration officials. Last year officers turned up at 6.30am and removed 44 workers to check their status. They were eventually dropped off at a 7-Eleven store two hours from the farm.

As the system for tracking people down has become more powerful, there has been a huge increase in the number of plaintiffs appearing before immigration courts. Some 1.1m people are somewhere on the docket: that is nearly 5,000 immigration cases per judge. More than half of all federal prosecutions are now for immigration-related offences. To deal with this overload, courts have sprung up all over the place: close to the border, but also in Michigan, Minnesota, Missouri, Nebraska and New Jersey. They all have the same blue carpets, dark wood benches and American flags, identikit outposts of the Justice Department tucked away unannounced in office buildings.

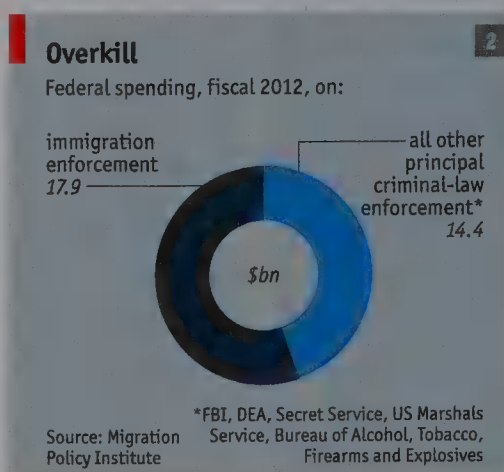
The system does a good job of giving each plaintiff a decent hearing. One typical day in the San Antonio court featured a Vietnamese woman, married to an American citizen, fighting deportation, a young couple hoping to get married soon, and a man who had a conviction for abandoning a child. The judges were patient and, working through interpreters, did their best to render legalese into plain English. This lent the process a certain dignity, but in most cases the outcome was clear from early on.

In the holding pens

The number of people deported is largely determined by the number of beds available in detention centres, which are the holding pens for the people America expels. Each year Congress mandates funding for a certain number of beds for immigration detention and stipulates that the occupancy rate must be kept high. In 2013 that number was 34,000. The president asks for less funding in his budgets but Congress gives him more, such is the political appeal of spending on border security.

Some of these places are run by private companies for ICE, like the one in Pearsall, a small Texas town decorated with churches, car-parts shops and a high-school football field. The facility can house up to 1,800 men at any one time, sleeping on iron bunk-beds in dormitories of up to 100. This is not a prison but it has few windows, is surrounded by fences topped with razor wire and is run by the GEO Group, a company that also runs prisons.

The Pearsall detention facility is quiet inside, apart from the noise of thick metal doors opening and closing. A manager ex-



plains that the colour scheme, mostly khaki, has been carefully chosen to keep the inmates calm. More people spend time in such places in any given year than serve time in federal prisons. Housing them all cost \$2 billion in 2012, or nearly \$5,000 per person deported.

Even with all this funding, the beds the government is mandated to provide exceed the number of places available in detention facilities, so the excess are housed in ordinary prisons. In other words, they are locked up with ordinary felons. The requirement to keep the beds filled means that as soon as one group of people are deported another arrives to replace them. On the day your correspondent visited the Pearsall detention centre the occupancy rate had dipped to 95%, so the staff were expecting a new delivery of people. The average length of stay in these places before deportation is about a month. Multiply the number of beds by 12 and you get close to the number of people deported each year.

In the Pearsall facility the men wear colour-coded boiler-suits: blue for minor offences, orange for mid-level ones and red for the most serious offenders. The government is keen to focus its efforts on serious criminals, the red boiler-suits, and boot them back over the border. But in the Pearsall detention centre there are a lot of peo-

ple wearing blue. TRAC, a database maintained by Syracuse University of each case that comes before the courts, shows that just one in seven filings to deport is based on allegations of criminal activity.

The government has to make sure that the countries where detainees were born will have them back. In rare cases this proves impossible. Families for Freedom, an NGO, says it is working with a Kenyan man who has been in immigration detention in New York for eight years. From the detention centres the deportees are rounded up and put on planes. ICE has its own air operations division which flew 44 charter flights a week in 2013, and runs a daily flight to deposit people in Central America. When flying to more unusual destinations, an ICE agent will babysit the deportee on a commercial flight.

This is a remarkable feat of logistics. And yet it could be more extensive. It would take many more years of deportations running at their current level to remove all 11.7m undocumented migrants. Yet most Americans think this is unrealistic, a view shared by those doing the deporting. "You cannot enforce your way out of this problem," says an ICE official. "Nobody is more convinced of the need for immigration reform than us. Our people want to be doing law enforcement."

The great expulsion which America is carrying out is removing some people who have committed violent crimes. But it is also expelling economic migrants, some of whom have been working in America for decades, and splitting up families. In the two years to September 2012, 205,000 parents were deported.

Judges do have the discretion to halt a deportation if it will cause extraordinary distress to the family. But in the case of Mr Rochas, the care-home worker, the distress of his wife and children, who face growing up without their father, was of the ordinary variety; and besides, the clemency quota had been filled already. ■



Who'll pick America's spinach now?



The farm bill

A trillion in the trough

WASHINGTON, DC

Congress passes a bill that gives bipartisanship a bad name

WHILE Congress was gridlocked it was easy to forget how ugly the smooth functioning of government can be. After a delay of two years, a reminder came on February 4th when the Senate passed the farm bill, a strange piece of legislation which costs nearly a trillion dollars. It mixes benefits that mostly go to the poor (food stamps) with agricultural subsidies that mostly go to the rich (crop subsidies for large farms). Given a blank slate, nobody with an interest in either alleviating poverty or improving farming would construct such a law. Yet here it is again.

The alignment of rural and urban interests, which dates from when the two bits of legislation were yoked together in the 1970s, had temporarily broken down, largely thanks to some House Republicans who wished to treat food stamps (which account for 80% of farm-bill spending) and agricultural subsidies separately. They were motivated by fiscal prudence and the belief that welfare discourages work.

However, the imminence of November's mid-term election persuaded enough Republicans to change their minds for the bill to pass. Some of those who failed to secure farm subsidies for their constituents might have been vulnerable. Another concern was the "dairy cliff": the failure to pass a new bill would have invoked a 1949 price-support law, written when the need to produce enough milk for thirsty infant

boomers was paramount, under which the government would have been obliged to buy dairy products at about twice the going rate. Even people who had trouble understanding that shutting down the government before Christmas would be politically damaging quickly grasped that doubling the price of breakfast would.

The bill passed with some pretend reforms to the food-stamps programme designed to be spouted in election campaigns, such as ending the supposed scourge of millionaires receiving the benefit. Democrats complained about savage cuts to food stamps, which actually amounted to a mere 1% over ten years compared with an earlier version. And the big

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picture is that food-stamp spending has exploded since 2000. The number of people receiving the benefit rose from 17m in 2000 to 26m in 2007 and then, as the recession bit, to 48m in 2013—though it is projected to shrink again as growth revives.

Those who think this expansion is a bad thing point to a study by James Ziliak of the University of Kentucky, which found that only half the recent rise was due to the stodgy economy. The remainder was caused by demographic change and a determined effort to make more people eligible, something that irks Republicans who suspect Democrats of expanding welfare to buy votes. However, Mr Ziliak, who studies poverty, likes food stamps because they are counter-cyclical.

America is unusual among rich nations in trying to tackle deprivation by giving away free food, a quirk that dates from a moment during the second world war when the government wanted people to buy up agricultural surpluses. Food stamps have high administrative costs and are open to corruption: some beneficiaries buy big packs of fizzy drinks and sell them ►►

Fun farm bill facts

| | |
|---|--|
| Total cost of 2014 farm bill over 10 years | \$956bn |
| increase in spending compared with previous farm bill in 2008 | 49% |
| Share of 2014 farm bill spending which has nothing to do with farming | 80% |
| Amount by which average farm household income exceeds average household income* | 25% |
| Share of subsidies received by largest 10% of farm businesses | 75% |
| Mean annual crop insurance subsidy received by top 1% of policyholders* | \$227,000 |
| Mean annual crop insurance subsidy received by bottom 80% of policyholders* | \$5,000 |
| Number of people receiving food stamps in 2013 | 47.6m |
| increase since 2000 | 177% |
| Famous recipients of farm subsidies | David Rockefeller, Jimmy Carter, Bruce Springsteen |

Sources: Environmental Working Group; Department of Agriculture; Cato Institute; *The Economist*

*2011

back to the store for cash, minus the middleman's cut. The federal government runs a confusing mess of 126 anti-poverty programmes, many of which overlap, but there is no serious talk of making the system simpler and more effective.

The part of the farm bill that actually deals with farming is even worse. Farmers are not the only people whose businesses have ups and downs; there is no reason why they should get special treatment. The new law shifts away from direct payments, by which farmers received cheques for doing nothing very much, towards an insurance model, where farmers get paid if crops fail or prices fall too far. This sounds reasonable, but the insurance schemes lock in high prices when farming is profitable, as it is at the moment: since 2008 the value of farm assets has increased by half, says the Congressional Research Service.

Crop insurance has two other defects. The first is that while the risk of crop failure or low prices is largely underwritten by taxpayers, the policies are provided by insurance companies, so, in effect, they enjoy a subsidy too. Calculations by Vincent Smith of Montana State University found that between 2005 and 2009 for every dollar in crop insurance that went to farmers, \$1.44 went to insurance companies. The second problem is that crop-insurance payments are skewed towards wealthier farmers. The Environmental Working Group, which campaigns against wasteful farm spending, calculates that more than 10,000 policyholders received over \$100,000 from crop-insurance subsidies in 2011. The new bill tries to cap the amount that any one farmer can receive; but if the weather is bad, it could lead to higher payouts than planned.

Sweet deals

Taken together, these subsidies distort behaviour and trade in unhelpful ways. They have created products that make no economic sense in the rest of the world, such as making sugar from corn. As a penalty for keeping cotton subsidies in place, the World Trade Organisation's rules require the American government to pay \$147m a year to compensate farmers in Brazil. The new bill is unlikely to resolve that, either.

How could Congress write such a law? One answer can be found in the register of political donations. The ten members of the House, nine Republicans and one Democrat, who accepted most money from agriculture lobbyists took in an average of \$225,000 in political contributions during 2013, according to Open Secrets, which tracks donations—almost as much as some farmers received in return. ■

Correction: In ■ leader last month (Of bongs and bureaucrats, January 11th) we said that *The Economist* first proposed legalising drugs in 1993. In fact we argued for it in ■ cover story in 1988. Who says drug use doesn't damage long-term memory?

Trade

When Harry mugged Barry

Harry Reid threatens to impoverish the world by at least \$600 billion a year

IN HIS state-of-the-union address Barack Obama asked Congress to give him "fast-track" authority to negotiate trade deals. Shortly afterwards his most important ally on Capitol Hill hinted that he might block it. As Senate majority leader, Harry Reid can do just that: no bill gets a vote without his say-so. But would he really stiff Mr Obama? Much depends on the answer.

Studies suggest that proposed deals with Asia and Europe could generate global gains of \$600 billion a year, with \$200 billion of that going to America. And that understates the benefits, since the deals would spur competition in the market for services, which make up most of rich countries' output but are seldom traded across borders. Opening industries like finance and transport to greater competition could bring great savings to consumers.

Mr Obama has never been an ardent free-trader, yet his second term got off to a promising start. The Trans-Pacific Partnership, a deal with large Pacific-rim economies, is close to completion; America and Japan are hammering out the rules for farm goods. European and American trade wonks continue to meet regularly, hoping to wrap up a "next-generation" trade agreement as early as next year.

To make all this happen Mr Obama needs "trade promotion authority" (usually known as "fast-track"), which would let him negotiate deals and then present them to Congress for a simple yes-or-no vote, with no chance for lawmakers to rewrite the details. Without such authority, Ameri-

ca's trading partners cannot take the White House seriously as a negotiator. Fast-track was last granted to George W. Bush in 2002 and expired in 2007. Since Republicans are generally pro-trade and Democrats are generally loyal to Mr Obama, most people in Washington at first assumed that Congress would give it to him without a fuss.

But with elections looming and lawmakers in a populist mood, that is far from certain. Late last year roughly half the members of the House wrote to Mr Obama declaring their opposition to fast-track; most were from his own party. In early January a bipartisan group of senators introduced a fast-track bill. Mr Obama spoke up for it in his state-of-the-union address, but only in passing and in mercantilist terms. The aim is "to protect our workers, protect our environment and open new markets to new goods stamped 'Made in the USA'," he said; without mentioning that cheap imports raise living standards.

Barely had he left the podium when Mr Reid mugged him. Answering questions from reporters, he reiterated his opposition to fast-track and advised its backers "not [to] push this right now". Insiders doubt that Mr Reid would kill the bill outright. Hagglng in the Senate may yield a new version with enough about labour standards and the environment to satisfy the protectionists. If so, Mr Reid will probably allow a vote, and the bill should pass. The White House remains publicly optimistic.

Yet damage is already being done. Michael Froman, Mr Obama's trade representative, says negotiations have not been affected by the politicking in Washington. However, even if Mr Reid's rebellion was partly for show (his seat is at risk in 2016), it still worries America's trade partners. Shinzo Abe, Japan's prime minister, may be reluctant to offend voters at home for the sake of a trade deal that America's legislators might promptly torpedo. Similarly, the French, who have been a constant pain in talks between America and Europe, could argue that since America's leaders seem determined to attach conditions to a fast-track bill, France's demands for carve-outs deserve consideration, too.

At home meanwhile, Democratic opposition could harden. Some lawmakers may see an opportunity to put daylight between themselves and their Republican foes ahead of November's elections. With corporate profits looking healthy and wages still stagnant almost five years into the recovery, some may be tempted to portray Republican backing for free trade as support for fat-cat corporations.

Mr Reid's surprise rebuke suggests that Mr Obama needs to communicate better with his allies. And if he wishes to prevent two of the most promising trade deals in a decade from unravelling, he will need to make a far more full-throated case for the benefits of free exchange. ■



Obamacare and jobs

Insured and inactive

NEW YORK AND WASHINGTON, DC

New estimates that health reform will discourage work

THE Affordable Care Act, better known as Obamacare, was supposed to transform American health insurance. Critics have long feared that it would do much more. Republicans have cast Obamacare as a job-killing, economy-crushing villain. On February 4th they appeared to get more ammunition from the Congressional Budget Office (CBO), Capitol Hill's nonpartisan number-cruncher.

The CBO, as part of its projection of economic growth over the next decade, estimates that Obamacare will lower full-time employment by 2.3m in 2021, compared with what might have been without reform, and by 2.5m in 2025. The main reason is not that firms are already slashing jobs to avoid the burden the law imposes, as Republicans have complained, but that Americans will choose to work less.

The insight that Obamacare would lower the supply of labour is not new, but the magnitude of the CBO's estimate is—the 2.3m drop in 2021 is nearly three times larger than the CBO's earlier projection. Many factors account for the decline. Chief among them is the effect of subsidies for health insurance. To help Americans buy coverage on new health “exchanges”, Obamacare offers tax credits to those earning between 100% and 400% of the federal poverty line (about \$11,500 to \$46,000 for a single adult). Those tax credits are offered on a sliding scale, by income, so workers in effect pay a higher tax rate as their wages rise. This may dissuade them from trying to earn more.

The White House, mining the report for nuggets of good news, argued that Obamacare liberates American workers. “At the beginning of this year, we noted that as part of this new day in health care, Americans would no longer be trapped in a job just to provide coverage for their families, and would have the opportunity to pursue their dreams,” the White House press secretary said in a statement. “This CBO report bears that out.”

The supply-side effects are not all bad. Some Americans, no longer tied to their employer-provided insurance, may feel freer to take better jobs or start their own businesses. But this effect is unlikely to offset the ranks of people who choose to work less, or not at all. And although leisure is often agreeable, does America really want to encourage its citizens to put their feet up?

The answer is almost certainly no. The country is already suffering from a sharp,

troubling decline in labour-force participation, from 66% in 2007 to less than 63% now. This is partly due to retirement and partly to discouraged workers who have given up looking for a job. A shortage of workers is hardly an issue in the current, depressed economy. But some day it will be. The CBO expects participation to remain low, in part because of Obamacare. That is one main reason why it thinks America's potential growth rate—the fastest it can grow with all available capital and labour—will slow to 2.1% over the next decade, compared with 2.2% in the past ten years and 3.3% over the past 60.

There is no easy fix. Any means-tested programme may discourage work. For example, a new health proposal from three

Republican senators also includes insurance subsidies for the poor, and so would also penalise those who earn more.

Republicans are bound to use the CBO's new estimates to bash Democrats in the mid-term elections. The more important question is how Democrats and Republicans should encourage more Americans who can work to do so. That might include raising the retirement age or expanding wage subsidies, whether through the Earned Income Tax Credit or a new wage subsidy championed by Marco Rubio, a conservative senator. Democrats and Republicans agree on little. But encouraging work—which gives individuals purpose in life and makes America richer—would seem a nonpartisan goal. ■

College sports

Wildcat formation

CHICAGO

Why college football players want to unionise

IN THIS year's Super Bowl the star quarterback, Peyton Manning, was thwarted by the Seattle Seahawks' defence. Five days earlier a less famous quarterback, Kain Colter of the Northwestern University Wildcats, took on a mightier opponent: the National Collegiate Athletic Association (NCAA), the body that oversees American college sports. Supported by the United Steelworkers union and his team-mates, Mr Colter petitioned the National Labour Relations Board (NLRB) to let the Wildcats form a union.

The economics of college athletics are peculiar. The two most popular sports, American football and basketball, generated \$4.7 billion in revenue in 2012-13, mostly from TV deals and ticket sales. University officials make out handsomely—in most states the highest-paid public employee is a coach—whereas the players get only an academic scholarship in exchange. The NCAA punishes those who are caught receiving additional compensation. One player was suspended for accepting groceries when his scholarship cash ran out. Moreover, the value of the education they receive is dubious. Many get others to write their essays. Star basketball players usually drop out and go pro after a single year. Taylor Branch, a historian, has written that the exploitation of (mostly black) college athletes—particularly in brutal sports like football, where brain damage is a hazard—carries “the whiff of the plantation”.

So far, most efforts to address these injustices have taken place in court. The NCAA is fighting lawsuits for failing to protect football players against concussion, and for limiting compensation for its athletes. Mr Colter is seeking to open a



Unpaid gladiators

new front. His strategy emphasises health and safety.

Players who suffer incapacitating injuries can lose their scholarships and face huge medical bills. A hypothetical union would push for insurance for sports injuries for current and former players, rules changes to reduce brain damage, bigger scholarships and a share of sponsorship money.

For Mr Colter to win, the NLRB must recognise the players as university employees. Yet in 2004 it denied this recognition to graduate students at Brown University, even though they were paid for their teaching duties. College athletes may have to wait a while to receive a share of the wealth they create.

Immigration reform

Path of least resistance

LOS ANGELES

The Republicans may be groping their way to compromise

OVER the past two decades America's broken immigration system has confounded one Congress after another, because it never seemed possible to craft a law that satisfied the right balance of interests. But some Republicans changed their minds after the 2012 presidential election, when Mitt Romney took just 27% of the Latino vote. It did not take a brilliant strategist to understand the threat: Latinos were growing in number, were increasingly likely to vote, and were turning away from Republicans in droves.

Last June, 14 Republicans in the Senate joined the majority Democrats to pass a comprehensive immigration-reform bill. The effort stalled when the Republican-led House of Representatives said it would not take up the measure. But last week it roared back to life when John Boehner, the House Speaker, issued a brief memo to his caucus outlining principles for reform.

Although short on specifics, in most respects Mr Boehner's note echoes the Senate bill. It calls for a verifiably secure border, biometrics to track comers and goers, and a digitised system for employers to check the immigration status of workers. It urges the allocation of visas to suit the demands of American firms. It says that most of the 1.5m "Dreamers" (illegal immigrants brought to America as children) should be allowed to become citizens. How the ground has shifted: only three years ago Senate Republicans (and a few Democrats) filibustered a Dream Act to death.

These provisions are not universally loved—many think America already spends too much money keeping people out (see Briefing)—but they can command support from both parties in Congress. That may not apply to the knottiest part of reform: what to do about America's 11m-12m illegal immigrants, two-thirds of whom have lived in the country for over a decade (and 80% of whom are Latino).

The Senate bill would allow most undocumented immigrants to apply for citizenship after paying back-taxes, displaying English proficiency, passing a background check and so forth. That, though, was too much for House Republicans to stomach, so Mr Boehner proposes merely to remove the threat of deportation from those who can satisfy a similar laundry list; there will, he says, be "no special path to citizenship".

Diehard nativists will dismiss anything short of mass deportation as "amnesty". The reaction of reform advocates is harder

Assortative mating

Sex, brains and inequality

WASHINGTON, DC

How sexual equality increases the gap between rich and poor households

IN "MAD MEN", a series about the advertising industry in the 1960s, women are underpaid, sexually harassed and left with the kids while their husbands drunkenly philander. Sexual equality was a distant dream in those days. But when Don Draper, the show's star, dumps the brainy consultant he has been dating and marries his secretary, he strikes a blow for equality of household income.

Nowadays, successful men are more likely to marry successful women. This is a good thing. It reflects the fact that there are more high-flying women. Male doctors in the 1960s married nurses because there were few female doctors. Now there are plenty. Yet assortative mating (the tendency of similar people to marry each other) aggravates inequality between households—two married lawyers are much richer than a single mother

who stacks shelves. A new study* of hundreds of thousands of couples investigates the link.

The wage gap between highly and barely educated workers has grown, but that could in theory have been offset by the fact that more women now go to college and get good jobs. Had spouses chosen each other at random, many well-paid women would have married ill-paid men and vice versa. Workers would have become more unequal, but households would not. With such "random" matching, the authors estimate that the Gini co-efficient, which is zero at total equality and one at total inequality, would have remained roughly unchanged, at 0.33 in 1960 and 0.34 in 2005.

But in reality the highly educated increasingly married each other. In 1960 25% of men with university degrees married women with degrees; in 2005, 48% did. As a result, the Gini rose from 0.34 in 1960 to 0.43 in 2005.

Assortative mating is hardly mysterious. People with similar education tend to work in similar places and often find each other attractive. On top of this, the economic incentive to marry your peers has increased. A woman with a graduate degree whose husband dropped out of high school in 1960 could still enjoy household income 40% above the national average; by 2005, such a couple would earn 8% below it. In 1960 a household composed of two people with graduate degrees earned 76% above the average; by 2005, they earned 119% more. Women have far more choices than before, and that is one reason why inequality will be hard to reverse.



Let's do it for social justice

*Marry Your Like: Assortative Mating And Income Inequality, by Jeremy Greenwood, Nezih Guner, Georgi Kocharkov and Cezar Santos, NBER Working Paper 19829

to predict. Immigrant groups have long feared the creation of a class of residents without hope of citizenship. But Mr Boehner's memo did not rule out eventual citizenship for illegal immigrants through existing channels. If no such roadblock is inserted into whatever legislation emerges from the House, Democrats and most of their allies will probably hold their noses and back it. Mr Obama has hinted as much.

A bigger stumbling block is concealed at the end of the document. "None of this can happen", it warns, "before specific enforcement triggers have been implemented." If these turn out to be unattainable, such as

the Border Patrol reaching "100% situational awareness", that could kill a deal. But most reformers appear to think Mr Boehner is acting in good faith.

It is not clear, however, that he can bring his party with him; Republicans began curbing expectations as soon as the memo appeared. Many, bafflingly, say they cannot trust the deport-happy Mr Obama to enforce border law. Some think tackling this divisive issue should wait until after the mid-terms in November. Mario Díaz-Balart, a pro-reform Republican, puts the chances of legislation this year at 35%. But at least the conversation has resumed. ■

Drug policy

Hoffman's habit

How to make heroin less deadly

THE death of Philip Seymour Hoffman from a heroin overdose on February 2nd left the extraordinary actor's fans distraught. Artists have always been prone to self-destruction, and no one knows how to change that. Drug-abuse experts do, however, have a good idea of how to stop more people from destroying themselves by injecting heroin.

Over the past two decades many have come to favour tackling heroin abuse through "harm reduction" policies, rather than tougher policing. Many governments have decriminalised personal use and provided free therapy programmes, using drugs such as methadone and buprenorphine that block heroin's high. Two other proven ways to reduce harm, however, are more politically controversial: setting up safe sites where users can inject while monitored by health-care staff, and—for registered addicts who cannot or will not comply with treatment regimes—providing heroin itself free.

Switzerland and the Netherlands pioneered this "Heroin Assisted Treatment" (HAT) approach in the 1990s, and both countries later adopted it as national policy. HAT trials have also been run in Spain, Britain, Germany and Canada. The evidence suggests that HAT slashes heroin-related deaths and HIV infection, since users are shooting up under medical supervision. It also drastically reduces heroin-related crime, since addicts have no need to steal or sell their bodies to get money for their fix. Some studies find that HAT actually works better than methadone or buprenorphine. Heroin use is falling steadily in both Switzerland and the Netherlands; by the late 2000s the Dutch incidence of new heroin users had fallen close to zero, and the ageing population of addicts from the 1970s and 1980s continues to shrink.

Decriminalisation of marijuana use has also played a role in limiting Dutch heroin use, since it separates the use of cannabis from the use of harder drugs. More interestingly, harm reduction including HAT appears to lead to lower illicit heroin consumption, in part because free government heroin drives out private-sector providers. When addicts shoot up in safe rooms monitored by public-health staff, where they are recruited into treatment programmes or (if they fail or refuse) simply receive free heroin, it gradually erodes the market for dealing the drug. As they say in the tech world, you can't compete with

free. One study found that such policies cut the illegal heroin trade by about 30%.

Such arguments would once have sounded to Americans like tone-deaf pleas to be more like Europe or Canada, but no longer. The decisions fully to legalise marijuana in Colorado and Washington gave those states some of the world's most liberal soft-drug policies, leaping ahead of the Netherlands. Following up with harm-reduction policies for hard drugs could help America battle a recent spike in heroin deaths related (as Mr Hoffman's apparently was) to painkiller addictions. It might have been hard for someone of Mr Hoffman's fame to use a safe injection site, of course. And whatever governments do, some people will still kill themselves with drugs. But if there are ways to avoid some deaths, why not try them? ■

The origins of man

Monkey business

PETERSBURG, KENTUCKY

Debating evolution at the Creation Museum

SCIENTIST and a creationist walked on to a stage. This is not a joke; it happened on February 4th in Kentucky. In one corner: Ken Ham, who founded Answers in Genesis, a group that believes the Bible is literally true and the earth is 6,000 years old. In the other: Bill Nye, the former host of a tv show called "Bill Nye the Science Guy". The setting: the Creation Museum, also founded by Mr Ham, where you can see an animatronic Noah building his ark and cavemen co-existing with dinosaurs. The subject: "Is creation a viable model of origins in today's modern scientific era?"

Mr Ham debated with the punchy, authority-quoting fussiness of a scientist, while Mr Nye showed the corny volubility of a guy who just can't keep the good news to himself. Shortly before taking the stage, Mr Ham told reporters that when all was said and done, "I don't think we should say, 'Bill Nye won,' or 'Ken Ham won'...I know that God's word is true. Nothing [Mr Nye] said will cast doubt on that."

Neither took the stage expecting to change his opponent's mind. Instead, both spoke to American children. Mr Ham lamented that evolutionists "impose an anti-God religion on generations of unsuspecting students", and urged them to "admit the belief aspect of their worldview". Mr Nye noted that if Mr Ham were right—if the earth is only 6,000 years old and Noah's ark held 7,000 types of animals—new species would need to have emerged daily to produce the diversity of fauna that now exists. He asked how a pair of kangaroos on an ark that ran aground on a mountain in Turkey could have hopped their way to Australia, leaving neither descendants nor fossils anywhere in between.

He worried that allowing creationism a veneer of scientific respectability would harm America by producing scientifically illiterate students. Laws passed or under consideration in several states tacitly endorse the teaching of creationism by allowing teachers to introduce material critical of evolution in science lessons.

Most Americans reject young-earth creationism. But the share of Republicans who believe that humans evolved fell from 54% in 2009 to 43% last year. Democrats, do not look so smug: your lot are likelier to believe in UFOs, ghosts and astrology. Also, that the moon landings were faked, that the CIA introduced crack to inner cities and that America's government conspired in the September 11th attacks. It's enough to make an ape weep. ■



Man and dinosaur living in perfect harmony



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ENDURING AWARENESS



Lexington | Zero-sum politics

Voters think both parties are telling the truth about how awful the other lot are



“GOODBYE.” Just hearing Barack Obama say the word has the power to startle, almost three years before his term in office ends. It slipped out during a speech to Wisconsin factory workers on January 30th, during a four-state tour intended to show off a president still fizzing with ideas for fixing the economy.

During that tour Mr Obama stressed his eagerness to work with Congress on an ambitious goal: a wholesale effort to restore the promise that, in America, responsible folk who work hard have a fair shot at a middle-class life.

If members of Congress would not help, he would press on without them, Mr Obama added bullishly. Yet he could not conceal a wistful note as he contemplated how much remains undone. Restoring economic opportunity is the defining project of this generation, he said in Wisconsin, flanked by gleaming, flag-bedecked hunks of machinery. That task has driven his presidency, he pledged, and “will drive me until I wave goodbye.” Once uttered, the image of his departure seemed to hang in the air.

None of this means that Mr Obama is already a lame duck. Three years is a political eternity. Mr Obama has hefty executive powers, both formal and exhortatory (“I’ve got a pen, and I’ve got a phone,” as he likes to say). And though the president’s job-approval ratings are grim, other indicators are more promising.

For one thing, the economy is at last picking up. For another, most Americans still think the president cares about people like them: a measure that may sound woolly, but which has proved powerful in the past among swing voters. The president has not lost his touch with a crowd, Lexington can report after watching him in Wisconsin. It was a tough gig, involving lots of middle-aged men in overalls, brawny arms folded sceptically as they listened. Waukesha is a conservative corner of a swing state: so much so that the plant is home to specimens of a rare breed, sternly Republican union members. Several shared their dislike for Mr Obama beforehand. Even his willingness to use executive orders divided the crowd into partisan camps. Democrats cheered: “His hands are tied by Congress,” said Tom Jenkins, a maintenance manager. Chuck Griffith, a machinist, growled disagreement: a president who flouts Congress is “a dictator”.

After Mr Obama’s speech, several expressed happy surprise. The crowd roared approval when he urged parents to let children

learn skilled trades (it pays better than an art history degree, Mr Obama noted, to jeers). Several said how much they liked a passage in which Mr Obama hailed the “blue-collar” values of his parents-in-law. Michelle Obama’s parents never envied success or worried about the Ferrari-driving, fur-wearing rich, he said. They cared about a simpler, all-American principle: that people who worked hard should be able to support a family.

As a rough-and-ready focus group, the Waukesha factory workers are interesting. The state twice voted to send Mr Obama to the White House. But Wisconsin voters also elected a Republican governor, Scott Walker, and stood by him when he picked a big fight with public-sector unions. The plant chosen for the presidential visit has seen worldwide sales surge after inventing a clever engine for use in oilfields. Its workers and apprentices—highly skilled and well treated—represent a sort of heroic ideal for both Republicans and Democrats, as they debate how to revive the American Dream.

Alas, the crowd’s warmish response to Mr Obama does not translate into much love for either party. It is one thing for voters to believe that Mr Obama cares about people like them, it turns out. It is another to trust that his party as a whole—or his opponents’ party, for that matter—has their economic interests at heart.

Keith Grace, a machine repairman, was one of many at the Waukesha event to deride the Democrats as a party that hands “free stuff” to the idle. At the same time he calls the Republicans a party that looks out for big business, not workers. A self-styled independent, he did not vote for Mr Obama in 2008 or 2012, yet after his speech marvelled: “He hit home today, he’s real.” Mr Grace summed up the world-view of millions of disgruntled independents in a pithy, two-part sentence: “People ought to get off their duffs and get a job, but I’d like it to be a job that pays well.” He trusts neither party to deliver this package in its entirety.

Harland Altreuter, a snowy-haired machine operator, was chosen to meet the president during a factory tour. He found Mr Obama a “genuine, really nice person”. He voted for him in 2008, but not in 2012. Most workers at the plant have great health insurance, he explained, but what if they are forced on to Obamacare? The president’s health law is intended for those with nothing to lose, suggested Mr Altreuter: folk without any insurance, or those with long-term illnesses. Workers like him have a lot to lose.

Reds for the heartless rich; Blues for the idle poor

There seemed no end to the zero-sum calculations. Women deserve equal pay for equal work, Mr Obama said at one point. Female workers whooped, while many men stayed stony-faced. Job growth in suburban Waukesha does little to help the former industrial hub of Milwaukee, protested Earl Ingram, a school mentor from that nearby city, now blighted by jobless rates, notably among black men, that he called “a crime, a tragedy”.

If Waukesha’s workers are any guide, the Right has done a fine job convincing lots of Americans that Democrats are a party for the undeserving poor. The Left, meanwhile, has successfully portrayed Republicans as a party for the heartless rich. Neither party has done nearly as well at making a positive case for itself.

In person, in the right setting, Mr Obama is slightly less loathed than the two-party system. But voter disillusion traps him too. Waukesha workers wondered, almost as one, whether Mr Obama’s ideas for boosting the middle classes would change very much, even if they liked the sound of some of them. His presidency is not over. But the bully pulpit is not what it was. ■



El Salvador's gangs

Breaking good

SAN SALVADOR

A two-year-old ceasefire has saved thousands of lives. Can it survive a bumpy presidential election?

OSCAR, a wiry 29-year-old (pictured) who lives in a slum in eastern San Salvador, has two types of tattoo. On his arms are the letters M and S, standing for Mara Salvatrucha (MS-13 in the lingo), the gang he has fought for since he was 12. On one hand is a smaller tattoo that says *Milagro* ("Miracle"). He reveals it furtively. It is the name of his six-year-old daughter.

The gang's letters, he says, represent *los homeboys*, who were there for him when he was a fatherless youngster after the end of the civil war in 1992, and then moulded him into the violent criminal he became. He has spent nine years in prison, sometimes with 170 other unwashed gangsters packed into the same room. Gang life is vicious, he says ("You laugh and cry at the same time"), but he insists he will never erase the tattoos, which commemorate those around him who have been killed.

It is a different story when he talks about *Milagro*. He claims he will never allow her or her younger brother to hang around with the gangs, or to develop the tribal hatred that he has for Barrio 18, his blood rivals. Now he and a few local members of MS-13 say they are going straight, tattoos and all. With the help of a local Catholic priest, Father Antonio Rodríguez (who walks around with two armed guards for protection), they have set up a bakery. It is unsettling to see hands etched with a code of bloodshed cutting pastries and daintily dipping them in sugar. But if a flailing 23-

month-old truce between MS-13 and Barrio 18 is ever to turn into something more enduring, Salvadoreans may have to accept such bittersweet compromises.

The first round of a presidential election on February 2nd showed how hard that could be. In the run-up, the ruling left-wing Farabundo Martí National Liberation Front (FMLN), which quietly brokered the ceasefire in 2012 together with the Catholic church, all but disowned it. Norman Quijano of the right-wing Nationalist Republican Alliance (Arena) ran ads promising to crush the gangs. If he is elected, "their party's over", he promises. That apparent reprise of the "iron fist" policies that Arena pursued with lousy results in the early 2000s did him little good. The FMLN's can-

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didate, Salvador Sánchez Cerén, won a lead of almost ten points over Mr Quijano, though he fell a whisker short of the 50% needed to avoid a second-round vote.

Between now and the run-off on March 9th there will be a sharper focus on the truce, not least because Mr Sánchez Cerén's position on it is unclear (his vice-presidential running mate is more overtly supportive). Both parties will try to woo supporters of the third-placed Tony Saca, a former right-wing president, who is disdainful of any deal with the gangs. Adam Blackwell, an unofficial mediator from the Organisation of American States, who met jailed gang leaders last month, says society is too polarised to discuss the truce during the elections. He thinks the next month will be tricky, as the gangs get restless.

Bring up the bodies

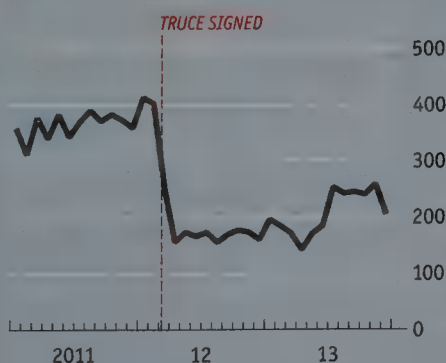
Though the number of murders is rising again, it is still around half its level before the ceasefire (see chart). Disappearances reached more than 1,000 last year, and the discovery of mass graves has created the suspicion that the ceasefire is being secretly flouted. But even including disappearances, the death toll is much lower than it used to be.

Crimes such as extortion and armed robbery remain rampant. According to surveys carried out by the UN, people's sense of insecurity, which fell after the truce, has risen again. Many Salvadoreans see the truce as a smokescreen behind which the gangs can broaden their criminal enterprises. The United States has tacitly endorsed that view. In June it designated six MS-13 mobsters as leaders of a transnational criminal organisation, making them the first members of a street gang to be put on such a blacklist.

The outgoing government of President Mauricio Funes has sought to distance it

Live and let live

Murders in El Salvador



Source: El Salvador National Civil Police

self from the truce as well. Since May Ricardo Perdomo, the new security minister, has taken a tough line. Prison-cell interviews with the media have been banned. More damaging, an agreement under which 11 municipalities agreed with the gangs to provide "peace zones" and job opportunities in exchange for a halt to the violence has been undermined. Since November mayors from both the FMLN and Arena have complained that federal cash to support the programmes has not materialised.

Yet such initiatives may be the only way to turn a temporary truce into something more permanent. Roberto Valent, the UN's

representative in El Salvador, says the gangs' estimated 60,000 members may have as many as 300,000 dependants. That means about 6% of the population will need new sources of income.

The gangs, which took root when Salvadorean members of MS-13 and Barrio 18 were deported from their breeding grounds in the United States in the 1990s, fester in the conditions of deprivation, family breakdown and migration that have continued to plague El Salvador since the end of its civil war. Aggressive policing has put 26,800 people in jail, up from 7,800 in 2000 (and three times the number the

prisons were built for).

Many of those prisoners have children and even grandchildren. Like Óscar, though they cannot escape the stigma of criminality themselves, they would like their families to. That, Mr Valent says, requires a frontal assault on criminality to strengthen the rule of law, as well as new opportunities for young men and help for prisoners to re-enter society when they are released. Money from international donors would be available if there were a consensus in El Salvador in support of those policies. But, he laments, that consensus "still doesn't exist". ■

Bello | Dilma's tight skirt

Brazil's president has left herself little room for economic manoeuvre ahead of a difficult re-election campaign

IF BRAZILIANS find themselves in a tight spot, they say they are in a *saia justa* (a tight skirt). Although she usually prefers trouser suits, that is precisely where Dilma Rousseff finds herself. Later this month she will launch her campaign to win a second term in a presidential election due on October 5th. Normally at this stage of the political cycle, as in the run-up to elections in 2006 and 2010, the government would be ramping up spending. But when Ms Rousseff spoke to the World Economic Forum in Davos last month, with the São Paulo stockmarket and the real dipping along with other emerging economies, she felt impelled to stress her commitment to being strait-laced.

Brazil's economy has disappointed since she took office in January 2011. Growth has averaged just 1.8% a year; inflation has been around 6%; and the current-account deficit has ballooned, to 3.7% of GDP. Her government has some good excuses. She inherited an overheating economy, the world has grown sluggishly, and cheap money in the United States and Europe prompted an exaggerated appreciation of the real.

But Ms Rousseff has scored some own goals as well. Her predecessor, Luiz Inácio Lula da Silva, left monetary policy to the Central Bank and mostly stuck to clear fiscal targets. By contrast, Ms Rousseff chivvied the bank into slashing interest rates; her officials tried to micromanage investment decisions with subsidies and to cover up the fiscal damage through accounting tricks. Rather than the promised recovery of growth, the result was that Brazilian businessmen and foreign investors lost confidence in the economic team—and just at the wrong time. When America's Federal Reserve last year announced a possible "tapering" of its bond-buying, the real began to slide.

Bursting at the seams



Against the dollar, it is now 17% below its value in May.

A weaker currency is just what Brazil needs if it is to balance its external accounts and its manufacturers are to thrive. But it also risks adding to inflation, the upward creep of which was one factor (along with poor public services) in mass protests that shook Ms Rousseff's government last year. This has prompted a change of mind. Alexandre Tombini, the Central Bank governor, has been allowed to raise interest rates (from 7.25% to 10.5%). At Davos, Ms Rousseff for the first time said that her aim was to bring inflation down to 4.5%; she previously seemed content merely for it to stay below the ceiling of the target range of 2.5-6.5%. Lula, her political mentor, "surely told Dilma that interest rates won't lose her the election, but inflation might," says a senior opposition economist.

The Workers' Party, which has ruled Brazil since 2003, expects to fight and win the election on its record of job creation and of lifting 40m Brazilians out of poverty. Unemployment is low and real wages are still rising (see chart). This explains why Ms Rousseff remains the clear favourite for Oc-

tober. A Datafolha poll in late November gave her 47% of the vote, compared with 19% for Aécio Neves and 11% for Eduardo Campos, her main challengers.

Some market analysts include Brazil as one of five "fragile" emerging economies, but the government rightly counters that it does not belong in the same company as Argentina or Turkey. As Mr Tombini points out, Brazil has a strong banking system and the reserves (\$376 billion) to smooth a gradual exchange-rate adjustment. While talking of fiscal responsibility, the signs are that the government thinks it can get away with postponing belt-tightening until after the election.

But what if a mixture of outside events and fiscal fudging at home (and even a possible downgrade by credit-rating agencies) prompts a bigger decline in the real? So far the pass-through of devaluation to domestic prices has been low, but the history of price-setting in Brazil suggests that this might suddenly change if the currency weakens further, says Monica Baumgarten de Bolle, an economist at Rio de Janeiro's Catholic University. "This is what really worries the Central Bank," she says. It would have to respond with a monetary squeeze, killing growth.

In the same Datafolha poll 66% of respondents said they want the next president to act differently from Ms Rousseff, a generic yearning for change that suggests her support may be less solid than it seems. By allowing inflation to become a campaign issue, she has strayed on to the opposition's ground. Her past mistakes have led her to a situation in which her promise to spend more on public services is uncomfortably dependent on the humours of international investors. That is the tight skirt she has donned. The next few months will show whether she can wriggle out of it.

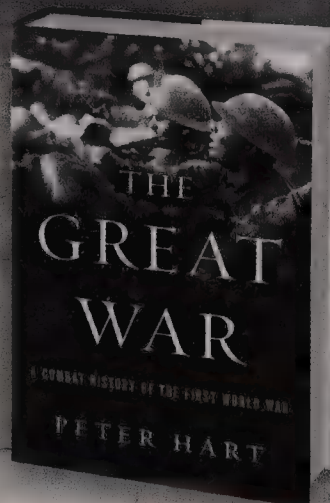
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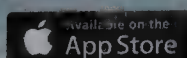
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Canada, America and oil

A pipeline runs through it

OTTAWA

Canada can't wait to start pumping. The United States can

MINUTES after America's State Department declared on January 31st that a proposed cross-border oil-pipeline would have little environmental impact, Canada's ruling Conservatives posted an online ad bluntly directing Barack Obama to "approve Keystone XL now". It is not the first time that Canada has dropped the diplomatic niceties when pressing Mr Obama to approve the Keystone pipeline, which would carry crude from Alberta's tar sands to refineries on the Texas coast. Stephen Harper, Canada's prime minister, has previously threatened to sell the oil to Asia, called approval a "no-brainer" and insisted he "would not take no for an answer". But Mr Obama seems to be in no rush.

Developing the tar sands and exporting its oil is a priority for Mr Harper, whose political roots lie in energy-rich Alberta. The pipeline, which would carry up to 730,000 barrels a day (b/d) of Alberta crude and an additional 100,000 b/d of Bakken crude from Montana and North Dakota, was first proposed in 2008. The southern part of the proposed network, within the United States, went into operation last month. But the northern bit, which crosses the border, has been held up by court challenges and environmental reviews. Greens, who want tar-sands production curtailed, remind Mr Obama of his 2008 promise to "free [America] from the tyranny of oil once and for all". The pipeline's backers promise that it would bring jobs and investment.

Despite its title, the State Department's "Final Supplemental Environmental Impact Statement" is not the last word on the matter. The public has 30 days to comment and America's federal agencies have 90 days to weigh in before Mr Obama will be called on to make a decision. With congressional elections due in November, he may prefer to take his time. A White House spokesman said after the report's publication that the president would not be hurried into making up his mind.

The report supplied ammunition to both sides of the debate. Producing and using a barrel of Albertan oil emits 17% more greenhouse gas than the average barrel refined in the United States, it said. But building the pipeline would not have much impact on climate change, because without it Alberta crude would probably still be produced and shipped to market, through other pipelines or by rail. Unless the price of oil dropped below \$75 a barrel (it is now about \$97), tar-sands producers could ab-

sorb the cost of rail transport, the report said. Rail freight had risen to 180,000 b/d in Canada by the end of last year, from almost nothing in 2011.

Last July Mr Obama said that Canada could do more to lower its carbon emissions. Yet Mr Harper, who has accused the American president of "punting" the Keystone decision, did some punting of his own, saying just before Christmas that he hoped new emissions regulations for Canada's oil and gas sector, first promised in 2006, would be passed within two years.

Canada had a bigger stick to wave at the United States before the surge in hydraulic fracturing ("fracking") led to predictions of American energy self-sufficiency by 2035. Mexico, which has begun to liberalise energy, also looms as a potential rival. Mr Harper and the oil industry must hope that they can secure Keystone's approval before the well of interest dries up. ■

Freedom of speech in Ecuador

Drawn and quartered

QUITO

The government orders a newspaper to "correct" a critical cartoon

AFTER police launched a Boxing Day raid on the apartment of Fernando Villavicencio, an opposition activist, Xavier Bonilla put pencil to paper in his defence. In a cartoon (shown below) published two days later in *El Universo*, a newspaper, Mr Bonilla—more commonly known by his pen-name, Bonil—depicted officers pretending to pay Mr Villavicencio a Christmas visit, before breaking down his apartment door and gleefully scampering off with his computers.

Rafael Correa, Ecuador's thin-skinned

president, did not get the joke. After he denounced the "despicable" satire, Bonil and *El Universo* found themselves the subjects of the first major investigation by Supercom, a media regulator established by a media-gagging law passed last summer. On January 31st Supercom ordered Bonil to publish a "correction" to his cartoon, which it said had "stigmatised" the police and prosecution service. *El Universo* was fined 2% of its average monthly sales for printing the drawing and thus "failing to abstain from taking an institutional position over the innocence or guilt of people involved in a legal investigation".

Mr Villavicencio, whom Mr Correa accuses of espionage for possessing the internal e-mails of senior government officials, says that the seized computers hold hundreds of official documents related to "grave cases of corruption" within the government. He told Mr Correa in a letter last year that he intended to make them public.

Bonil's lawyer, Ramiro García, calls the affair Kafkaesque. "To demand fact-checking of a cartoon is like saying that jokes have to be told with bibliographical quotes," he said of the decision. Lucie Morillon of Reporters Without Borders, a free-speech outfit, says the ruling is "absurd and dangerous". "How can you correct a caricature?" she asks.

Bonil has found an answer to that question which is likely to embarrass Mr Correa even more. On February 5th he published a sanitised retelling of the same story, in which the police are all smiles and show Mr Villavicencio every courtesy. "Call your lawyer...we'll make you a list of what we take, for you to sign," offers a friendly detective. "We'll keep it in a sealed envelope...in case you think we are going to show it to anyone." "Don't worry—I know that in your hands there is total independence," Mr Villavicencio responds, cheerily waving them off. The message is clear—and the joke is on Mr Correa. ■





Politics in Myanmar

Not so fast

SINGAPORE

Aung San Suu Kyi's road to the presidency grows longer and more winding

EVER since Myanmar's army-dominated government began its political reforms in 2011, the question of whether the country's most popular politician would be able to stand for president next year has hung over the whole process. Aung San Suu Kyi is a Nobel laureate, among the most famous women in the world, and leader of the country's biggest opposition party, the National League for Democracy (NLD). But all this will count for nothing if Myanmar's constitution continues to bar Miss Suu Kyi from standing for president. Changing the constitution to allow this has become the single most important test for the country's reformers. But to judge by recent events, altering the constitution will be harder than many had expected.

At the root of the problem is Clause 59(f). The military junta of the time inserted it into the new constitution in 2008 specifically to stymie the political aspirations of their most feared opponent, then languishing under house arrest. The clause bars from the presidency anyone whose spouse or children are foreign citizens. Miss Suu Kyi's late husband, Michael Aris, was a British academic, while her two sons were born in Britain and hold British passports. Miss Suu Kyi was released in late 2010. She won a by-election in April 2012 by a landslide and entered parliament as one of 43 newly elected members from the NLD. Such is her popularity that the NLD is thought likely more or less to sweep the

board in the general election in late 2015. The president is then chosen by MPs. Were it not for the peccant clause, freshly elected NLD lawmakers would elevate Miss Suu Kyi to the presidency.

The army's constitution is shot through with countless other shortcomings. For instance, no place exists in it for a proper political accommodation with minority ethnic groups such as the Karen and the Kachin, who have been fighting the Burman-dominated central government for decades. Almost everyone, from the army's ruling proxy party, the Union Solidarity and Development Party (USDP), through to the NLD, has a gripe with one part of the constitution or other.

Until now, it had generally been assumed that even diehard members of the USDP, provided they got enough in return, would accept the need to change 59(f), if only to underscore that Myanmar's reform process is real. But then on January 31st, after months of deliberation, the 109-member parliamentary committee charged with gathering opinions on constitutional change issued a report purporting to show that most Burmese were against changing the clause. In all, the committee, dominated by the USDP, claimed to have received 28,000 letters, almost all suggesting changes to the constitution. Fully 100,000 signatories, it claimed, opposed change either to Clause 59(f), or to provisions that guarantee the armed forces 25% of the seats

in parliament. By contrast, allegedly a mere 592 signatories favoured scrapping the clause.

The NLD hit back immediately. One MP, Zaw Myint Maung, said the claimed results were just an organised signature campaign among USDP members in Yangon, wholly unrepresentative of public opinion. Even if he is right, it suggests that the USDP grassroots is not going to roll over meekly and accept a Suu Kyi presidency.

There will be a fight, in other words, and the president, Thein Sein, may be more sensitive to USDP concerns than people had thought. In early January Mr Thein Sein gave a speech in which he discussed the matter of the presidency. His expression in support of changing the anti-Suu Kyi clause grabbed all the headlines and seemed to confirm his image as a great reformer. But he also added, in a passage that got less attention, that "if the political demands made by the public are larger than the current political system can accommodate, we can all end up in political deadlock." If that happened, "we could lose all the political freedom we have achieved so far. I would therefore like to urge all of you to handle such a situation with care and wisdom."

Exercising care and wisdom could mean a lengthy process—longer than the 68-year-old Mrs Suu Kyi may have. The parliamentary committee that came out with its report was charged merely with canvassing opinions. Now a new committee has been formed actually to study all the thousands of proposed changes. That will take time. If and when concrete proposals emerge, there is still the barrier of the 75% majority of MPs needed to approve constitutional change. For now, 80% of parliamentary seats are held by the army or the USDP. Miss Suu Kyi and her supporters have a long trek ahead. ■

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Pakistan and the Taliban

Jawing with the enemy

ISLAMABAD

Efforts to get the Taliban to talk are unlikely to amount to much

PAKISTAN suffers such relentless violence that any peace effort may seem worth a try. Last week Nawaz Sharif, the prime minister, nominated four representatives for talks with the Tehreek-e-Taliban Pakistan (TTP), an umbrella group for dozens of violent outfits known in shorthand as the Pakistani Taliban. In return, the Taliban offered five names of its own. A meeting for initial talks about talks was hastily scheduled for February 4th, in Islamabad, the capital. Already early momentum is turning to farce.

These first talks were called off amid growing scepticism and news of more bombs. The TTP looks unready to accept minimum preconditions: a ceasefire and recognition of Pakistan's constitution. Nominees on both sides lack authority. On the government team is a man close to an opposition party, Pakistan Tehreek-e-Insaf (Movement for Justice or PTI), a journalist, a political adviser and an ex-spy known for meddling in party politics. The Taliban put forward rigid religious types, yet none of them was a TTP member. They also, embarrassingly for him, asked a former cricketer, Imran Khan, head of the PTI, to bat for them. He quickly refused, though Mr Khan's party, which runs Khyber Pakhtunkhwa province, has renewed its offer of an office for the Taliban to use—like the majority in the province (and Mr Khan himself), the Taliban are ethnic Pushtuns.

Just possibly negotiations could start, though it remains unclear over what, be-

yond prisoner releases. Husain Haqqani, a former Pakistani ambassador to America, recently told a Delhi think-tank that it was futile to engage with the Taliban. "You can't negotiate with someone who wants to move our country into the eighth century," he said. The TTP wants political control over swathes of territory and the imposition of strict *sharia* law. But Pakistan's chronic failing is precisely the state's weak writ. Ceding more space to extremists would invite more violence, not less.

Amir Rana of the Pakistan Institute for Peace Studies in Islamabad points to another problem. Little thought has been given to the potential role, as spoiler, of perhaps hundreds of Central Asian and other foreign militants in Pakistan, including members of al-Qaeda, who are TTP allies and opposed to negotiations. And given the Taliban's own fractious affiliates, doubts exist over whether the TTP leaders could impose their will if a deal were ever struck. In any case, says Ahmed Rashid, a writer in Lahore who has long studied Islamist groups, the TTP's "semi-literate" members are more ideological even than the better-known Taliban in Afghanistan.

Not that peace talks over the border with the Taliban's Afghan counterparts are easy either. This week the *New York Times* suggested that the Afghan Taliban had held two months of secret negotiations with Afghanistan's president, Hamid Karzai, beginning late last year. But these have since collapsed, achieving nothing except even more bitter mistrust of Mr Karzai on the part of the United States.

Back in Pakistan, the Americans will watch warily, too. Recently Mr Sharif had seemed ready to consider launching a military operation against the TTP. America lent him political cover by reducing anti-militant drone strikes on Pakistani territory. Yet if Mr Sharif is seen to grow soft on his enemies, such American forbearance

might not last. Nor would the army cheer on peace talks for long if TTP attacks continue. The army chief, Raheel Sharif, has enjoyed cordial relations with the prime minister (no relation) since taking up his post in November. But the general will want to resume assaults of the sort conducted last month against the TTP in North Waziristan if conditions turn against his soldiers. If talks do go ahead, a breakdown remains a more likely conclusion than a breakthrough. ■

Crime and politics in Bangladesh

Bang bang club

More trials for Bangladesh's deflated opposition

TEN years after they arrived, the weapons have found their victims. In April 2004 police in Chittagong, the main port city of Bangladesh, intercepted a shipment of rifles, submachine guns with silencers, 25,000 hand grenades and more, worth some \$5m. Made in China, the arms may have been shipped with help from Pakistani spies set on causing trouble for India. The weapons were intended for rebels in Assam state in India's north-east, where insurgencies rumble on.

For years in Bangladesh the legal case went nowhere. Those involved in the arms shipment were ignored. The Bangladesh Nationalist Party (BNP), under Khaleda Zia, then prime minister, showed no interest in prosecutions. Only after the Awami League, the current government, took office in 2009 did prosecutors begin to consider the crime seriously. On January 30th a trial court sentenced 14 men—most of them from or affiliated to opposition parties—to death on smuggling charges related to the arms haul.

Assuming the sentences are upheld by the higher courts, they carry great political as well as legal weight. By implication, they embroil Mrs Zia's son, Tarique Rahman. He is judged by many to be the BNP's next leader—though he is living in London while corruption cases pile up against him at home. Among those sentenced to hang is Lutfuzzaman Babar, a long-time flunky of Mr Rahman's. This week the prime minister, Sheikh Hasina, vowed that her government would work to prove that, in the light of Mr Rahman's influence at the time, he knew all about the weapons.

Others sentenced to death include a former head of Bangladesh's military intelligence, another high-ranking Bangladeshi spy, plus (in absentia) a leader of an Asamese insurgent group who is on India's most-wanted list. Of major political signifi-



Team Taliban



icance, the court also found guilty Motiur Rahman Nizami, who leads Jamaat-e-Islami, Bangladesh's largest Islamist party and a close ally of the BNP. He has already been indicted by a separate court, looking at war crimes committed in Bangladesh's war of secession from Pakistan in 1971. He faces the prospect of being sentenced to death twice over.

Jamaat has promised protests against the smuggling verdicts. Though the party has a reputation for street violence, its capacity to create trouble seems diminished in recent months. Many Jamaat activists have either been arrested or shot dead. The BNP also looks utterly broken, unable to persuade followers to return to disruptive street protests against Sheikh Hasina, whether over court cases or elections.

By contrast, the prime minister looks increasingly content. Her Awami League won a general election on January 5th that was boycotted by the BNP and Jamaat. Aid donors and other observers who worried about the poll's credibility now seem to be coming to terms with five more years of Sheikh Hasina. The official aid agencies of Britain and America have funded an opinion survey suggesting that the Awami League would have won the election even without the boycott. That is a handy fillip for the government.

India, Bangladesh's giant neighbour, will be pleased with things, too. It is especially close to Sheikh Hasina and the avowedly secular Awami League, and it endorsed the January election. Those who set foreign policy in Delhi are anxious to prevent Bangladesh becoming, as it was before, a haven for insurgent groups that operate in India. They want Bangladesh to resist the sort of Islamist extremism prevalent in Pakistan. And they want it to help limit the flow of illegal Bangladeshi migrants flooding into India for work.

Sheikh Hasina shares India's aims, while doing everything to flatten the opposition at home. It bodes ill for democratic government. But the state of the opposition—pinned down in court, on the streets and in parliament—suggests a modicum of outward calm may prevail for a while. ■

Japan's national broadcaster

My country right or righter

TOKYO

The ghosts of the past once again embrace Shinzo Abe

IT SEEMS hard to credit that Toshio Tamogami, a 65-year-old former chief of Japan's air force sacked in 2008 for airing weirdly revisionist views about history, is still a man to reckon with. Yet his campaign for Tokyo's forthcoming governor's election has deepened a row over Japan's giant public broadcaster, NHK. Late last year Shinzo Abe, the prime minister, approved four new appointments to NHK's 12-strong board of governors, aiming to shift its coverage rightward. This week one of them, Naoki Hyakuta, a right-wing novelist, campaigned for Mr Tamogami. The Nanjing massacre of Chinese civilians in late 1937 by Japanese soldiers, he reportedly declared from the roof of a car in central Tokyo, was mere propaganda. It "never happened".

The affair is drawing more attention to Mr Abe's right-wing historical agenda, only weeks after his visit to the controversial Yasukuni shrine in Tokyo, where 14 high-ranking war criminals are honoured alongside 2.5m other war dead. On January 25th Katsuto Momii, the NHK's new director-general, another of those hand-picked by Mr Abe, told his first news conference that the broadcaster, which is legally obliged to be impartial, would seek to follow the government's line. "It would not do for us to say 'left' when the government is saying 'right'," he explained. Nei-

ther should Mr Abe's visit to the Yasukuni shrine be criticised by NHK, he added.

Mr Momii also weighed in on the subject of the Japanese army's wartime use of sex slaves, or "comfort women", from South Korea and other Asian countries. He said this has been common practice in the past "everywhere in Europe". Called before the Diet, he retracted the comment. But the government cannot have been surprised by his remarks, says Takao Toshi-kawa, editor of *Tokyo Insiderline*, a political newsletter. Mr Momii's outspoken views were well known in Mr Abe's inner circle.

For Mr Abe and his Liberal Democratic Party, rebooting the media is a strategic priority. They believe that, having acted as the army's propagandists during the second world war, journalists then went to the other extreme—though by the standards of the press in other democratic countries, Japan's is already unhealthily tame. Under the Democratic Party of Japan, in power until 2012, NHK's current-affairs divisions started to make programmes that dared to criticise the government's handling of the nuclear catastrophe at the Fukushima Dai-ichi plant in 2011. Now it is in effect under orders not to discuss nuclear power at all, according to a radio host who resigned in protest on January 30th. Amid a firestorm elsewhere in the media about its new boss's incendiary remarks, NHK did not even report them for three days.

More right-wing delusions emerged from Mr Abe's NHK appointees this week, such as an essay by a third, Michiko Hasegawa, arguing that the ritual suicide in 1993 of an extreme right-winger made Japan's emperor a living god. Yet the prime minister continues to argue for the overhaul of Japan's post-war pacifist stance. A draft government report is expected soon to recommend reinterpreting the war-renouncing constitution to allow the country's armed forces to take part in "collective self-defence". Japan would be able to come to the aid of its allies, notably America.

The step is supported by America's defence establishment. Yet the news about NHK is likely to worsen relations between Mr Abe and the White House. They were already strained by the visit to Yasukuni. Yoshihide Suga, chief cabinet secretary, has refused to condemn the views of the broadcaster's governors. Neighbouring countries, in particular China, are aghast that their old enemy might throw off its post-war military constraints under an increasingly right-wing and nationalist government. China's foreign ministry on February 5th denounced Mr Hyakuta's comments as "a barefaced challenge to international justice and human conscience". At home, where pacifism remains popular, allowing collective self-defence will become an even harder sell—though having the country's largest broadcaster on board will surely help. ■



Momii's retraction: a common practice

Banyan | Approaching the endgame

A messy poll leaves Thailand in an even worse pickle



ELECTIONS are supposed to provide political solutions. The one Thailand held on February 2nd served only to further exacerbate its problems. Both sides of the political divide claimed a victory. The governing Pheu Thai party, which had defied protesters' efforts to scupper the vote through disruption, intimidation and a boycott, could boast that nearly 90% of polling stations opened for business and that nearly half of voters turned out. But the protesters and the main opposition Democrat Party which backs them thwarted voting in enough places to mean that, constitutionally, no government can be formed. They may now succeed in having the whole election annulled by the courts. And these might even find a reason to dissolve Pheu Thai. The enemies of Yingluck Shinawatra, the prime minister, are inching closer to their goal of forcing her to resign.

The evening after the election the mood was buoyant in camps the protesters have set up to block major junctions in Bangkok. Loud music blared from stages, fist-brandishing speeches were cheered and hawkers flogged the movement's T-shirts ("Shutdown Bangkok. Restart Thailand" was a favourite). The next morning Suthep Thaugsuban, a Democrat bigwig who quit the party last year to become a full-time rabble-rouser, led a 14-kilometre (9-mile) march through the capital to rally supporters.

Yet sustaining the momentum may be hard. Mr Suthep launched his movement three months ago as a series of mass protests against the alleged corruption of Ms Yingluck's government, and it has since escalated into a round-the-clock, if half-hearted, "shutdown Bangkok" agitation. But he has little to show for his campaigning. Ms Yingluck has not quit, and her government insists it will now hold by-elections where voting was blocked, persevering until a parliamentary quorum is elected.

Some of Mr Suthep's supporters are out-of-towners, mainly from the south of Thailand, where the Democrats enjoy most support and the election boycott was widely observed. But many are respectable and peaceable members of Bangkok's middle classes who see themselves, as one puts it, as "better educated and more informed" than the people who keep electing governments, like Ms Yingluck's, loyal to her brother, Thaksin Shinawatra. Mr Thaksin, prime minister from 2001 until he was ousted in a coup in 2006, now lives in self-imposed exile to avoid a jail sen-

tence for corruption. For Mr Suthep and his followers he is the root of all evil in Thai politics. But the Democrats' image has been dented by its efforts to prevent people peacefully exercising their franchise, and by the occasional violence the protests have provoked, in which ten people have died.

The government's predicament, however, looks if anything even worse than its opponents'. Electing a constitutional parliament could take forever. The army, which has attempted 18 coups since the end of absolute monarchy in 1932, seems loth to intervene directly, perhaps remembering the mess it made after the 2006 coup. But the establishment has other ways of getting rid of governments it does not like. Various corruption investigations are under way against Ms Yingluck and her parliamentarians.

Of these, the most dangerous involves her government's disastrous rice-purchase scheme, in which it promises farmers far more than world-market prices. Ruinous to the government's fiscal position, the policy has also provoked protests from some of its core rural supporters, who have not been paid. Korn Chatikavanij, a Democrat and a former finance minister, reckons that 1.3m families are owed an average of about 100,000 baht (a bit more than \$3,000). For many this would be their only source of income. But the government may find it hard to raise money by selling down its swelling rice stockpiles. That would force it to realise the enormous loss. And buyers will be deterred by the political controversy—and by the hope that Thailand may soon become a very distressed seller. This week China pulled out of a contract to buy 1.2m tonnes, citing the corruption inquiry. Worse, the Thai government, with the election incomplete, is in a tenuous legal position, and, with banks nervous of getting embroiled in the mess, it is unable to borrow to meet its commitments.

Mr Korn outlines an elaborate road map out of this political cul-de-sac. The government would have to announce a referendum on the sorts of reform that the protesters demand and how to design and implement them: decentralising power away from Bangkok; making the elections less prone to vote-buying; restructuring the police, seen as a Thaksinite force; and, of course, curbing corruption. Then would follow another election, which Pheu Thai, even after all this, could expect to win.

Zugzwang

Ms Yingluck would have to go, however. And it is hard to see why she and her brother would accept such a deal. Their critics have a point that they have sometimes ruled in their own interests and those of their voters, rather than the country's—most notably over the issue which prompted this uprising, when they pushed through a bill (later withdrawn) that would have given Mr Thaksin and thousands of others an amnesty. Winning an election is not an excuse for riding roughshod over the views of huge numbers of Thais. But then, as the Shinawatras might say, the same is even more true of losing an election.

Even now—with the economy slowing sharply, tourist arrivals in January at half the levels of a year earlier, and the threat of more widespread violence mounting all the time—Thailand seems in a sort of denial about how deeply it is in trouble. "Stalemate" is an analogy often used to describe the political endgame. A better chess metaphor might be perpetual check, where, by repeatedly electing pro-Thaksin governments, Thai voters threaten the old establishment with the king at its centre. The risk is that, fed up with shifting the pieces in a game with no hope of a conclusion, somebody kicks over the board. ■

中国浦东干部学院 CELAP CHINA EXECUTIVE LEADERSHIP ACADEMY, PUDONG



The party and the media

Learning to spin

SHANGHAI

At a Communist Party training school, functionaries learn how to handle more aggressive news media

IT WAS not a typical government press conference. A journalist had asked a mayor some pointed questions about the safety of a paraxylene chemical factory planned for her city—the same type of plant that has prompted environmental protests around China. The mayor dodged the question in standard government-speak when the reporter, a portly man in a checked shirt and blue jeans, rudely interrupted her: “Please answer my question directly.” The room erupted with laughter.

This was, it turns out, a class at the China Executive Leadership Academy Pudong (CELAP) in Shanghai—one of five national schools for training Communist Party members. The “mayor” and the “journalist” were both low-level officials from Zhengzhou, an inland city, simulating a real-life situation in a class teaching functionaries how to cope with today’s media.

The party still exerts firm control when it comes to anything sensitive. But outside politics the media landscape has changed completely. Consumer programmes, investigative reporters and a noisy mix of microbloggers and middle-class NIMBYS are holding the party more to account. The classes at CELAP demonstrate that the leadership has understood what is at stake, even if it is still learning how to deal with it. Some of the party’s biggest recent problems have come from mishandling the newly probing media.

The message of the classes is clear: officials must be more responsive to the press and the public even as they toe the party line. Environmental protests, angry villagers talking to global media and spokesmen stumbling in news conferences have become teaching opportunities.

“In the past we could avoid the press...we could remain silent, but now we can no longer avoid it,” Tan Wenzhu, a lecturer, told a group of 40 officials from Heilongjiang province. Mr Tan showed the class a photograph and a mocking cartoon of an official who attended the scene of a grisly road accident in 2012 and was photographed smiling and sporting a luxury watch. He became known as “Brother Watch”, the punchline of online jokes and a liability to the party. He was soon out of a job. “I hope none of you will bring shame on the party and the government with your own problems,” intoned Mr Tan.

Of the party’s 85m members, many of whom are officials and civil servants, fewer than 100,000 have so far received training from the Shanghai academy since it opened in 2005 (plus 4,000 foreigners, from Venezuelan socialists to Russian bureaucrats). The party’s powerful organisation department arranges classes for senior officials, who must attend 110 hours of training a year at one of the national schools. Local governments also send their officials on courses.

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The staid Central Party School in Beijing is the most coveted place of study, with the best reputation. CELAP is next of the five. Near the gated entrance on Expectation Road (named by the school), the low-slung main building is meant to resemble a Chinese scholar’s desk, and the tower rising from it a pen-holder. Eight dormitory buildings, designed to look like the scholar’s folding books, are spread out over a sprawling leafy campus, including an artificial lake with ducks and swans. Officials stay in two-room suites, each stocked with a desktop computer, a two-volume history of the Communist Party and an English phrase-book of 800 useful statements for foreign audiences (“We attach great importance to protection of intellectual property rights and take it as a national strategy.” “We will continue to expand trade with your country. In particular, we encourage Chinese enterprises to import more from your country.”)

Young guns, new canon

In class, turgid canonical teachings of the party must all be represented: Marx, Mao and “Deng Xiaoping Theory”. But CELAP has a light attachment to doctrine compared with other party schools. Students are taught to “de-politicise” their language in times of crisis, at least in dealing with the public. Charged ideological phrases like “hostile Western forces” will not be helpful at the scene of a domestic disaster. Government jargon should be dropped, too. Liu Ning, a television presenter for Shanghai Media Group, helps coach the officials, telling them to speak in plain language, use humour to deflect tough questions, and refrain from boasting about how good a job the government is doing. That will only invite ridicule, she says.

One Chinese official everyone wants to ►►

▶ avoid emulating is Wang Yongping, a railway ministry spokesman who made a mess of a news conference after a high-speed-train crash in 2011 that killed 40 people in south-east China. Mr Wang was mocked online for claiming that pieces of the train were buried to help the rescue effort (microbloggers suspected it was to cover up evidence). "He was not fully prepared and he kept making explanations...based on his own speculation," Li De, a lecturer, tells his students, a photo of the hapless Mr Wang on a screen behind him.

Mr Wang's first mistake, though, was that he was not dressed formally enough. Instructors repeatedly stressed the importance of watching not just words, but also appearance. Women should wear skin-coloured stockings, not black, and definitely no fishnets. For men, Mr Li said, red ties are acceptable on happy occasions. "But if your boss is wearing a red tie, you should not. Don't steal the show." ■

Environmental accountability

Transparency in the haze

BEIJING

The government takes steps towards more openness

THE Communist Party has not habitually encouraged public pressure on local officials as a means of implementing its policies. So its recent moves to include the public in enforcing environmental regulations have caused a flutter. Under new rules that took effect on January 1st the environment ministry has called on 15,000 firms to make real-time public disclosures of emissions of air pollutants, wastewater and heavy metals. Environmentalists are applauding, but the implementation is all.

The companies were already required to install monitoring equipment and report the results to environmental regulators. But enforcement has been weak because most local officials are more concerned with economic growth than with preventing pollution. Leaders hope public disclosure can change that.

NGOs such as the Institute of Public and Environmental Affairs (IPE) can take some credit for the new policy. In 2006 the IPE began to publish data on individual companies and the pollution they generate, hoping this would spark public pressure and bring change. But the available data were often incomplete at best.

Some of the country's largest polluters only reported annually. In spite of big improvements in the disclosure of general air quality in many cities, people still wanted a solution, says Ma Jun, the IPE's director. "The key to that is identifying the specific

Internal trade

It's a continent, actually

HONG KONG AND YINCHUAN

China's external imbalances are nothing compared with its internal ones

NINGXIA, an autonomous region in China's north-west, is home to 6.3m people. About a third of them are Muslims, descendants of travellers along the Silk Road. The region is keen to revive the kind of trade networks that created its unique ethnic mix, so that it can diversify an economy which relies too much on coal, metals and chemicals.

In that regard Ningxia is hoping to sell nutritious goji berries to people worried about their bodies, certified halal foods to Muslims worried about their souls, and fine red wines to people relaxed about both. If these schemes succeed, they will help Ningxia to close its big trade gap with the rest of the world—and the rest of the country.

China trades more goods across its international borders than any other country. Its provinces also trade a lot with each other, but this trade is far from balanced. If each of China's provinces were treated as an independent economy, they would record enormous trade deficits and surpluses with the rest of the country and the world (see chart).

The biggest deficit, in absolute terms, in 2012 was recorded by the central province of Henan, out of which China's civilisation sprang and into which flowed goods and services worth a net 580 billion yuan (\$96 billion). In relative terms, however, the widest deficits appear in China's western provinces. Ningxia's deficit amounted to almost 40% of its GDP, bigger than the current-account deficit of any actual country. Even wider trade gaps were recorded in Qinghai, Yunnan and Tibet.

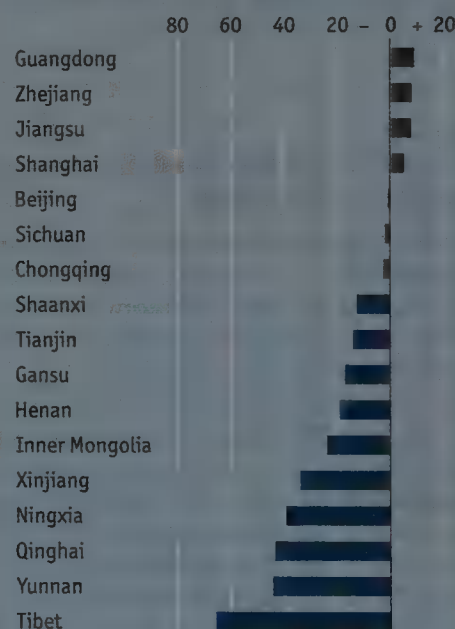
These deficits reflect the government's "Go West" campaign, an effort to invest

in the infrastructure of the west. Net "imports" from the rest of China and beyond allow poor provinces to spend more on consumption and investment than they earn. Ningxia's investment rate was 89% of GDP in 2012. In Tibet, the "roof of the world", the investment rate was through the ceiling at 101% of GDP.

Signs of investment are everywhere in Ningxia's capital, Yinchuan. Foreign firms are helping to build a posh hotel and mall, shaped like a flying dragon, which will attract international brands. But not everything is imported. The coal, piled around the dormitories where the labourers live and cook, is local.

The wide west

Provincial trade balance as % of provincial GDP, 2012
Selected municipalities and provinces



Source: National Bureau of Statistics

sources of pollution."

The government needs a solution, too. A study by the *Lancet*, a British journal, in 2012 estimated that 1.2m premature deaths in China in 2010 could be attributed to the effects of pollution. Another study, published last year by China's environment ministry, said that direct economic losses in 2010 amounted to 2.5% of China's GDP, double the proportion in 2004. Perhaps more significant for the party, pollution is a leading cause of popular discontent.

The new requirement for hourly data in some categories means companies can be caught out if they try to evade inspections by operating illegally at night, or if they continue work when they are supposed to be closed. With specific information about

violations, the public should be better equipped to exert pressure, and local officials should have a harder time protecting local enterprises from regulatory rigour.

Regional environmental bureaus have already been monitoring data, but many have not set up systems to make them publicly accessible. The wording of the regulations may also weaken their bite. Monitoring of emissions and disclosure of data are called the "due responsibilities" of firms, which they are "urged" to fulfil. Even so, the new rules are a step forward in the battle against pollution. And, born of necessity, the top-down moves to encourage bottom-up pressure may signal a broader trend that will have an impact far beyond China's murky skies. ■



Manufacturing in Africa

An awakening giant

ADDIS ABABA

If Africa's economies **■** to take off, Africans will have to start making a lot more things. They may well do so

LESS than an hour's drive outside Ethiopia's capital, Addis Ababa, a farmer walks along a narrow path on a green valley floor after milking his cows. Muhammad Gettu is carrying two ten-litre cans to a local market, where he will sell them for less than half of what they would fetch at a dairy in the city. Sadly, he has no transport. A bicycle sturdy enough to survive unpaved tracks would be enough to double his revenues. At the moment none is easily available. But that may be about to change.

An affiliate of SRAM, the world's second-largest cycle-components maker, based in Chicago, is aiming to invest in Ethiopia. Its Buffalo Bicycles look ungainly but have puncture-resistant tires, a heavy frame and a rear rack that can hold 100kg. They are designed and assembled in Africa, and a growing number of components are made there from scratch, creating more than 100 manufacturing jobs. About 150,000 Buffalo bikes are circulating on the continent, fighting puncture-prone competition from Asia.

E.K. Day, a SRAM founder, says he set up his first African workshop in South Africa and is looking at Addis Ababa and Mombasa in Kenya as possible next sites. Landlocked Ethiopia has only partially shed its Marxist heritage yet is attracting industrial companies. Huajian, a Chinese shoemaker (pictured above), has built an export factory not far from Mr Gettu's farm.

Those who cast doubt on Africa's rise often point to the continent's lack of manufacturing. Few countries, they argue, have escaped poverty without putting a lot of workers through factory gates. Rick Rowden, a sceptical development pundit, says, "Apart from a few tax havens, there is no country that has attained a high standard of living on the basis of services alone."

Yet a quiet boom in manufacturing in Africa is already taking place. Farming and services are still dominant, backed by the export of commodities, but new industries are emerging in a lot of African countries.

Thandika Mkandawire, a Malawi-born expert, and Dani Rodrik, a Princeton economist, argue that growth is bound to fizzle because of a dearth of factories. But they may be too pessimistic. Manufacturing's share of GDP in sub-Saharan Africa has held steady at 10-14% in recent years. Industrial output in what is now the world's fastest-growing continent is expanding as quickly as the rest of the economy. The evidence, big and small, is everywhere.

H&M, a multinational Swedish retail-clothing firm, and Primark, an Ireland-based one, source a lot of material from Ethiopia. General Electric, an American conglomerate, is building a \$250m plant in Nigeria to make electrical gear. Madecasse, a New York-based chocolatier, is looking for new hires to add to its 650 workers in Madagascar already turning raw cocoa

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into expensively wrapped milky and nutty bars. Mobius Motors, a Kenyan firm started a few years ago by Joel Jackson, a Briton, is building a cheap, durable car for rough roads.

Domestically owned manufacturing is growing, too. Seemhale Telecoms of South Africa is planning to make cheap mobile phones for the African market. Angola says it is to build its own arms industry, with help from Brazil. African craftsmen are making inroads in fashion. Ali Lamu makes handbags from recycled dhow sails on the Kenyan coast and sells them on Western websites.

Many of these businesses are beneficiaries of growth outside the manufacturing sector. The spread of big retail shops encourages light industry. In Zambia a surprising number of goods in South African-owned supermarkets are made locally; it is often too expensive to transport bulky stuff across borders.

A construction boom is fostering access to high-voltage power. The spread of mobile telephony, including mobile banking, helps small suppliers struggling with overheads. IBM, an American computer giant with an eye on Africa, goes so far as to say that "software is the manufacturing of the future". Consumers will still want to buy hardware, but growing local demand is creating a market for African app and software developers.

Make them learn

Underpinning all this is a big improvement in education. Charles Robertson, the chief economist of Renaissance Capital, a financial firm founded in Russia, has argued that for the first time in its history Africa now has the human capital to take part in a new industrial revolution. In the 1970s Western garment-makers built factories in places ►►

► like Mexico and Turkey, where a quarter of children went to secondary school. Africa, then at 9%, has caught up.

Another spur for African manufacturing is investment by Chinese workers who stay behind after completing their contracts for work in mining and infrastructure projects. Many thousands of them have set up workshops to fill the gaps in local markets. The African Growth and Opportunity Act, signed by America's Congress in 2000, has also boosted trade in African-made goods.

The World Bank has been suggesting for several years that Asian manufacturing jobs could migrate to Africa. Obiageli Ezekwesili, a vice-president of the bank, says that more than 80m jobs may leave China owing to wage pressures, not all to neighbouring countries with low costs; if African labour productivity continues to rise, many could go to Africa, especially if corruption and red tape, still major scourges of the continent, are curbed. In contrast to China, business in parts of Africa is becoming cheaper as infrastructure improves and trade barriers are lifted. The average cost of manufacturing in Uganda, for instance, has been falling.

Can cheetahs beat tigers?

This could mark a sea change. The rise of Asian manufacturers in the 1990s hit African firms hard; many were wiped out. Northern Nigeria, which once had a thriving garments industry, was unable to compete with low-cost imports. South Africa has similar problems; its manufacturing failed to grow last year despite the continental boom.

This is partly the fault of governments. Buoyed by commodity income, they have neglected industry's needs, especially for roads and electricity. But that, too, may at last be changing. Wolfgang Fengler, a World Bank economist, says, "Africa is now in a good position to industrialise with the right mix of ingredients." This includes favourable demography, urbanisation, an emerging middle class and strong services. "For this to happen," he adds, "the continent will need to scale up its infrastructure investments and improve the business climate, and many [African] countries have started to tackle these challenges in recent years."

Kenya is not about to become the next South Korea. African countries are likely to follow a more diverse path, benefiting from the growth of countless small and medium-sized businesses, as well as some big ones. For the next decade or so, services will still generate more jobs and wealth in Africa than manufacturing, which is fine. India has boomed for more than two decades on the back of services, while steadily building a manufacturing sector from a very low base. Do not bet against Africa doing the same. ■

Somalia's civil war

Pushing it across the borders

ADDIS ABABA AND NAIROBI

The most recent efforts to squash the insurgency at home may push it abroad

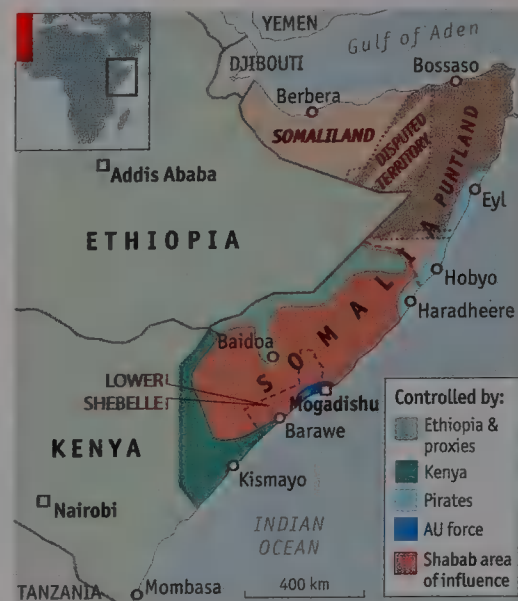
THIS year was meant to be Somalia's best for quite a while. President Hassan Sheikh Mohamud tapped a new prime minister, Abdiweli Sheikh Ahmed, on December 12th, who in turn named a new cabinet on January 17th, making a clean break from the disappointing previous government, which had itself emerged with a fresh whiff of hope after more than two decades of civil war. "Somalia has now turned a corner," said Mr Ahmed. "And there is no going back."

Yet war persists. After liberating the capital, Mogadishu, and a southern port city, Kismayo, from control by the Shabab militia of Islamic extremists in the past three years, troops under the aegis of the African Union (AU) are poised for another offensive. On January 29th they heralded a push into the militants' heartland in the south-centre of Somalia.

The AU force, mainly Kenyans, Ugandans and Burundians, is being bolstered by 4,400 troops from Ethiopia, bringing the total to 22,000, almost double its original strength. The Ethiopians, who have repeatedly invaded their dysfunctional neighbour, officially came under the international command this month. It is open to doubt whether they will obey it. Their forces have been unpopular in Somalia when they have intervened before; their renewed presence could undermine support for the new government propped up by the AU and its paymasters in the West. Misbehaviour in Kismayo by Kenyan troops, who have profited in the local charcoal trade, has had the same effect.

The new campaign in the Shabab heartland started on February 2nd with an American drone attack on Ahmed Abdi Godane, the Shabab's leader. It is said to have taken place north of Barawe in the Lower Shebelle region and to have missed him by a whisker, killing a close aide.

The AU force's long-term success in the south will hinge on entrenching political structures to replace the Shabab. In the past, Somali civilian leaders have repeatedly proved unable to capitalise on military successes. Either they failed to fill a power vacuum or they feuded among themselves, neglecting to provide services such as education and water. "The credibility and effectiveness of the young Somali government will be further threatened by persistent political infighting, weak leadership from President Hassan Sheikh Mohamud [and] ill-equipped government insti-



tutions," says James Clapper, America's director of national intelligence.

The military campaign may drive the Shabab further south, into Kenya, where fighters pose as members of the large local Somali population. A bomb went off at Nairobi airport on January 16th without doing much harm. The security services blamed the Shabab and predicted more attacks. On February 3rd Kenya's police arrested more than 100 people in Mombasa, the country's port city, and charged them with Shabab membership. Several people were killed in the riots that ensued. Ethiopians fear that the Shabab may soon launch attacks in their capital. It remains to be seen whether Somalia's civil war is drawing to a close—or whether it will simply seep across the country's borders. ■

Sanctions against Israel

A campaign that is gathering weight

JERUSALEM

Israel's politicians sound rattled by the campaign to isolate their country

ONCE derided as the scheming of crackpots, the campaign for boycotts, divestment and sanctions against Israel, widely known as BDS, is turning mainstream. That, at any rate, is the fear of a growing number of Israelis. Some European pension funds have withdrawn investments; some large corporations have cancelled contracts; and the American secretary of state, John Kerry, rarely misses a chance to warn Israel that efforts to "delegitimise" and boycott it will increase if its government spurns his efforts to conclude a two-state settlement of its conflict with the Palestinians. Israel, says Yair Lapid, Israel's foreign minister, is approaching the same "tipping point" where South Africa found itself in opposition to the rest of the ►►

world in the dying days of apartheid. "Let's not kid ourselves," he told a conference of security boffins recently in Tel Aviv. "The world listens to us less and less."

BDS has begun to grab the attention of some of the world's largest financial institutions. PGGM, a big Dutch pension fund, has liquidated its holdings in five Israeli banks (though the Netherlands' largest has affirmed its investments). Norway's finance ministry has announced that it is excluding Africa Israel Investments and its subsidiary, Danya Cebus, a big building firm, from a government pension fund.

The campaign is drawing support from beyond northern Europe. Romania has forbidden its citizens from working for companies in the West Bank. More churches are backing BDS. An American academic association is boycotting Israeli lecturers. The debate turned viral after Scarlett Johansson, a Hollywood actor, quit her role as ambassador for Oxfam, a charity based in Britain, in order to keep her advertising contract with SodaStream, an Israeli drinks firm with a plant on the West Bank.

Mr Lapid, who favours a two-state solution, reels out figures to show how sanctions could hit every Israeli pocket. "If negotiations with the Palestinians stall or blow up and we enter the reality of a European boycott, even a very partial one," he warned, 10,000 Israelis would "immediately" lose their jobs. Trade with the European Union, a third of Israel's total, would slump—he calculates—by \$5.7 billion.

Anxious to hold on to their markets, Israel's businessmen are increasingly backing the peace camp. The names on a recent advertising campaign in its favour included such luminaries as the head of Google in Israel. Hitherto they had usually preferred to stay out of politics.

Israel's government is divided over how to react to the BDS campaign. The finance ministry has temporarily shelved a report it said it would publish on the possible consequences of BDS. But Israel's press and ministerial addresses are increasingly full of worried references to it.

Some Israelis argue that this publicity merely feeds the BDS campaign, others that isolation has benefits. Israel's position as a hotbed of hi-tech start-ups is due in part to decades of circumventing Arab boycotts. A French arms ban in the 1960s sparked the development of its weapons industry, helping to catapult Israel into fourth place in the world's league of arms exporters. And if the West turns its back on Israel, there is, they say, the east. Relations with India have warmed of late, and those with China are getting closer. The economy minister, Naftali Bennett, a sceptic of the peace process, recently toured the Far East, saying he was bringing a "light to the gentiles" by way of Israeli business. But Mr Bennett is in a minority on BDS: his colleagues are a lot less sanguine. ■

The media in Saudi Arabia

Beating the censor

RIYADH

The kingdom's press and its social media are livelier than ever

FOR a country reputed to be dry and dull, Saudi Arabia is surprisingly awash with news. The good old broadsheet newspaper, dying out elsewhere, thrives. The kingdom boasts more than a dozen fiercely competing national dailies. The newest, called Mecca after the holy city where it is published, was launched this month.

Not so long ago it was rare to find the front page of a Saudi paper unadorned with a picture of His Majesty King Abdullah, Custodian of the Two Holy Places, or at least of some lesser prince with an equally quaint title. Now, in the year 1435 by the Muslim calendar, the chronicling of princely doings, though still *de rigueur*, tends to be relegated to the inside pages, above advertisements promising cheap, reliable Asian workers or promoting scientifically proven erectile enhancement.

What dominates the front pages now is actual news—especially, these days, the great dramas unfolding in places such as Syria and Iraq. But increasingly it is local human-interest stories that grab headlines. Recently they told the sad tale of six girls whose desert picnic near the capital, Riyadh, turned into tragedy when one of them slipped accidentally into a seasonal pool created by a winter rainstorm. One by one the others went in to save her, and one after another they were caught by quicksand and drowned.

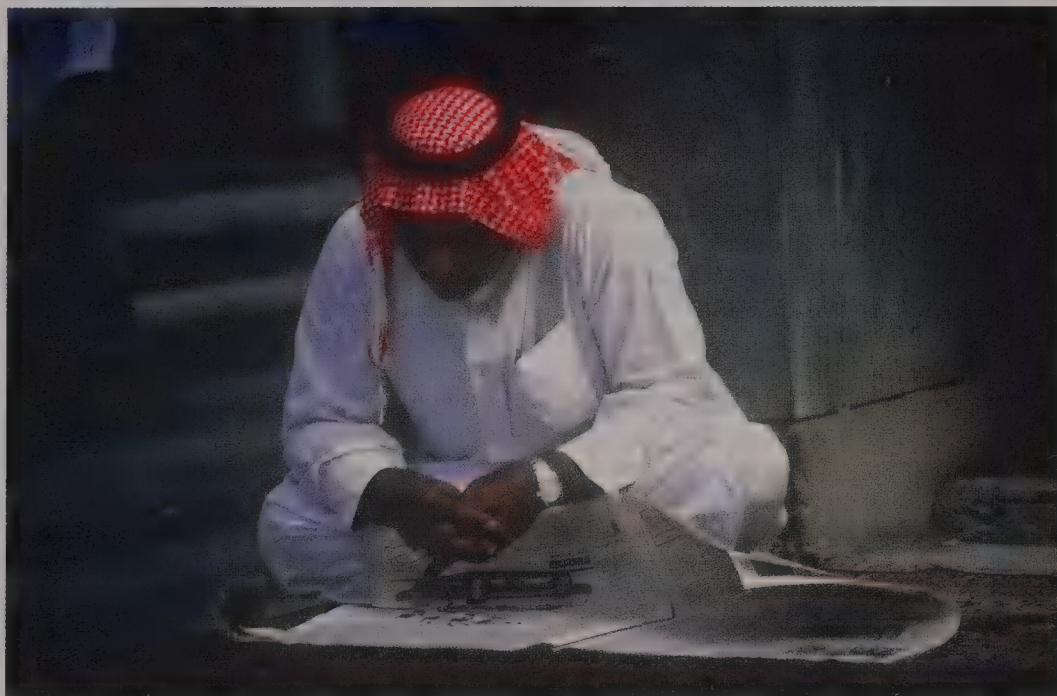
There are happy stories, too, such as the tale of a good Saudi citizen in the city of Bu-

raida. In stark contrast to the more commonly heard tales of domestic abuse and cruelty to servants, this man was a paragon of kindness. When his Indonesian driver of ten years' standing got married, his master not only paid for a sumptuous wedding to which he invited the grandest notables of Buraida. He paid his servant a year's wages in advance, and handed him the keys to his own car as a wedding gift.

Sometimes it is the brief little items that say the most about life in the kingdom. The fact that police in Riyadh recorded more than 2.5m traffic violations last year, a 14% rise on the year before, hints at either a surfeit of bad driving, or overzealous police, or both. The *Arab News*, one of two English-language dailies, noted that the Riyadh region registered a colossal 166,800 traffic accidents in 2012.

Al-Watan, a daily published in Abha, in the south-west, carried another revealing statistic. Only recently have unmarried adult women begun to plead before judges to be freed from the legal guardianship of their own fathers. In the past such an act would have been seen as inconceivably shameful to a family's reputation. But according to the paper such cases now pop up at a rate of one a day.

Typically, says *al-Watan*, they come about when a divorced father seeks to spite his ex-wife by withholding his legally required approval of their daughter's choice of husband, or when the father demands a gift from his prospective son-in-law, or even a proportion of his salary. In such cases, *sharia* courts can take the daughter's side and declare the father incompetent to act as a guardian. The judge may order the marriage to proceed so that the bride can be legally secure under a new male guardian, her husband. This outcome is apparently now more common: in such ways, the kingdom progresses. ►►



Twitter is even more exciting

Libya

Something to celebrate, at last

TRIPOLI

If only Libya's politicians could emulate its footballers

IF THERE was one image that captured Libya's joy at winning the African Nations Championship on February 1st, it was a grainy shot of Ali Zoghmani, a teenager in Tripoli, the capital, draped in the national flag and kneeling in jubilation as heavy rain drummed on his grinning, upturned face. The photograph, taken by his brother Omar on a phone as they celebrated with thousands of others in the city's Martyrs' Square, soon went viral on Libyan social media. "Football has reunited us in love for our one Libya," said Ali. "We get to smile again."

By beating the favourites, Ghana, 4-3 on penalties in Cape Town, Libya clinched its first continental football title. Its best performance to date had been to reach the final of the grander African Cup of Nations on home ground in 1982, when it lost to Ghana, again on penalties. (The lesser tournament Libya has just won excludes Africans who play in foreign football leagues.) For Libyans, winning this championship was about much more than football.

Three years after they overthrew Colonel Muammar Qaddafi, Libyans are disillusioned, their country riven by factional and regional tension. That the tournament was initially supposed to take place in Libya but was cancelled due to insecurity was a painful reminder of the country's plight.

"Hope and despair have wedded this Libyan heart to a small yellow ball in



We're a nation, after all

Cape Town stadium," tweeted a Libyan novelist, Hisham Matar, just after the kick-off. Crowds of young men in jeans and elderly men in more traditional garb thronged squares across the country to watch the final on giant screens. Tripoli came to a standstill as the game went into extra time. When members of the Libyan team lifted the cup, towns echoed to a symphony of fireworks, celebratory gunfire and patriotic chants. The government announced a national holiday, as the country celebrated more loudly than at any time since Qaddafi's fall.

The players are drawn from across Libya, including Tripoli, Misrata and Benghazi. No wonder Libyans quipped that their bickering politicians should take their cue from the footballers.

But in a place as politically restrictive as Saudi Arabia, people not surprisingly seek the hottest news beyond the reach of government censors. Relative wealth, added to the big surplus of free time that comes with youth unemployment reckoned to top 40%, has turned Saudis into some of the world's most intensive users of social media. A recent case of child abuse was brought to light via YouTube. An outraged citizen uploaded footage from a security camera that showed a man fondling a young girl in the lobby of an apartment block. Following an outcry, newspapers later reported his arrest.

Similarly, the occasional arrest, trial or imprisonment of dissidents, be they religious extremists, alleged apostates or liberals demanding a constitutional monarchy, tend to surface on Twitter rather than in print. Saudi newspapers have shied, for instance, from reporting the return to active jihad of Ahmed al-Shayea, a would-be suicide bomber in Iraq who survived his mis-

sion with severe burns. On his return to Saudi Arabia in 2007 he publicly repented, warning his countrymen against al-Qaeda and its promises of noble martyrdom. Embarrassingly for the Saudi authorities, who put him through an expensive rehabilitation programme, he began tweeting in November from Syria, where he has joined the ranks of another branch of al-Qaeda.

It is Twitter, too, that exposes the fiercest quarrels in the persistent debate between conservatives and reformers. When a well-known activist for women's rights, with a Twitter following of nearly 100,000, questioned whether Muslim men should refrain from shaving their beards in emulation of the Prophet Muhammad, a prominent sheikh tweeted back a severe rebuke. May her hands be paralysed, he cursed. And when another reformist launched a Twitter hashtag calling for the abolition of Saudi Arabia's religious police, it was quickly swamped with tweets branding liberals as pigs and degenerates. ■

Repression in Egypt

The same old blanket

CAIRO

The government's hostility to dissent is merely making it spread more widely

SIX months ago sceptics warned the army-backed government against a blanket clampdown on dissent, whether peaceful or not. Instead, the re-emboldened security services have increasingly been hammering the whole gamut of opposition, from secular reformers to every type of Islamist. And sure enough, resentment is brewing, in slums and villages as well as in intellectual and liberal circles. In the north-east corner of the Sinai peninsula an all-out Islamist insurgency now rages, punctuated by guerrilla attacks and indiscriminate army raids in retaliation. In recent weeks the violence has inched closer and closer to the nerve centres of power. Egyptians have returned from jihad abroad to rejoin battle at home.

Although the Muslim Brotherhood, in charge of Egypt under President Muhammad Morsi until his fall last July, has been decapitated by mass imprisonments, it has officially called for protests to remain peaceful. But hotter-headed sympathisers are predictably demanding a tougher response. "Silence has killed us," read a reproachful sign held by an Islamist activist at a recent rally in Cairo that was broken up by tear gas and police gunfire.

Groups espousing retaliatory violence have sprouted on the internet. Sporting such names as the Revolutionary Resistance Brigade, the Molotov Movement, the Execution Movement and Qutb's Hawks (after Sayyid Qutb, a leading Brotherly ideologue who was hanged under Gamal Abdel Nasser in 1966), they have yet to claim responsibility for specific attacks. Some internet groups say they have set up active branches across the country.

Other Islamist radicals have already proved their murderous skills. Ansar Bayt al-Maqdas (Companions of Jerusalem), a jihadist group in the Sinai peninsula that adopts the style and ethos of al-Qaeda, has declared war against Egypt's army and police. A newer outfit, Soldiers of Egypt, has also begun to hit security posts. So far, civilians have largely escaped the violence.

Scores of police casualties have hardened the security forces' attitude. Despite a lack of evidence, officials pin all the blame for the violence on the Brotherhood. The crackdown now extends to dissenters of any stripe, from leftist journalists to liberal reformers. Just as Mr Morsi committed the fatal error of alienating potential allies, his successors are steadily shedding friends and supporters. ■



German foreign policy

No more shirking

BERLIN

Is Germany ready to have a foreign policy proportionate to its weight?

SINCE the second world war, Germany has farmed out foreign policy to America, France and Britain, its key allies, while refraining from playing a serious part in military missions in the name of pacifism. Only between 1998 and 2005 did Gerhard Schröder, then chancellor, and his foreign minister, Joschka Fischer, give a glimpse of a more muscular Germany, for example by sending troops to the Balkans. Under Mr Schröder's successor, Angela Merkel, Germany has reverted to form. Guido Westerwelle, her foreign minister from 2009 to 2013, called this a "culture of restraint".

Yet to its allies such restraint has increasingly made Germany seem like "the shirker in the international community", as Joachim Gauck, the German president, put it in a speech to the Munich security conference on January 31st. The German diplomatic elite has long felt the growing frustration in Washington, Paris and London that Germany was not doing its fair share. There was particular anger over its refusal to back the 2011 UN Security Council resolution authorising war in Libya.

Mr Gauck, who has no policymaking power but speaks as the conscience of the country, is now urging Germans to step forward. He co-ordinated his speech with Frank-Walter Steinmeier, who succeeded Mr Westerwelle as foreign minister in December, having held the office in Mrs Merkel's first term from 2005 to 2009. Ursula von der Leyen, Germany's new defence

minister and a possible future candidate for chancellor, has also come out in favour of a more active Germany. So, more cautiously, has Norbert Röttgen, head of the foreign-affairs committee in the Bundestag.

Only Mrs Merkel herself has not made her own views clear on this shifting consensus. This is her wont: she lets others float new ideas to observe how the debate unfolds, tipping the balance only at a late stage. But it is inconceivable that she would have allowed two of her ministers to forge ahead so far if she did not sympathise fundamentally with their point of view.

What do the diplomats mean when they now promise "more engagement"? Mr Steinmeier's first objective is to repatriate to the foreign ministry the main responsibility for managing relations with the European Union, which migrated to the finance ministry during the darkest days of the euro crisis. He has made a start by hiring Martin Kothaus, formerly a spokesman for Wolfgang Schäuble, the finance minister.

Mr Steinmeier wants to improve co-operation with France, not just over the EU but elsewhere. The implied quid pro quo is that Germany will more actively support France in Africa and France will back Germany in leading the EU's policies in eastern Europe. This gives Germany a tricky test right away in Ukraine (see Charlemagne). But Mr Steinmeier also seeks non-military ways to be a better international

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partner. He feels, for example, that Germany should offer to dispose of Syrian chemical weapons because it has a suitable facility, even if Germans are uncomfortable with the idea.

Mrs von der Leyen is in principle ready to go further: towards a more unified European security policy, in which Germany would play a prominent role. Because this is at best a remote possibility, however, she is first trying simply to remove the domestic stigma from German military actions. Germany has about 5,000 soldiers in 13 missions worldwide, all playing a supporting role to allied troops. When NATO leaves Afghanistan, German soldiers are likely to be among the small number of Western troops that stay on.

Yet Mrs von der Leyen's concrete proposals seem almost trivial. In Mali, where the French are fighting against a jihadist takeover, she wants to raise the number of German military trainers from about 100 to perhaps 250. In the Central African Republic, where French troops are trying to stop bloody clashes between Muslims and Christians, Mrs von der Leyen would send aircraft to fly out the injured.

Those African missions are strategic sideshows to Germany's real national interests, says Ulrich Speck at Carnegie Europe, a think-tank. Germany should worry more about rebalancing its relations with Asia, where for economic reasons it has recently favoured China while neglecting South-East Asia and Japan. And it should force the EU to come up with a coherent stance toward Russia's Vladimir Putin.

Nonetheless, the new signals from Germany's elite amount to a big change. They are based on the perception that America cannot or will not be around, as it once was, to solve Europe's problems in future. Since revelations of American spying on Germans began last summer—the latest

► discovery is that America tapped not only Mrs Merkel's phone but also Mr Schröder's since 2002—trust in the former protector has been damaged, although Mr Steinmeier and Mrs von der Leyen are both keen to limit a further rift. More generally, the debate reflects a new self-confidence in Germany. After atoning for its sins for 69 years, the country is now “a good Germany, the best we've ever known”, as Mr Gauck puts it.

The biggest hurdle remains public opinion at home. A new poll finds 62% of Germans opposing Mrs von der Leyen's ideas

about making the German army more active abroad. Mr Steinmeier therefore plans to spend this year touring not only the world but also Germany to convince voters that the time has come to reconsider their reflexive and often moralising pacifism. “While there are genuine pacifists in Germany, there are also people who use Germany's past guilt as a shield for laziness or a desire to disengage from the world,” Mr Gauck said in Munich. Even on the political left, which still looks askance at NATO and sometimes the EU, such attitudes are becoming harder to defend. ■

transatlantic dealings says, as “the one who brought in the 75% millionaire's tax”.

Hence Mr Hollande's hope to present another face of France: innovative, technologically adept and open for business. He is taking with him a handful of French entrepreneurs from such firms as BlaBlaCar, a car-sharing site that transports more people each month than Eurostar, or Carmat, which invented the first artificial heart, transplanted into a human in France last year. Also on the trip is Fleur Pellerin, his digital-economy minister, a dynamic advocate for French start-ups who has pestered Mr Hollande to pay more attention to entrepreneurs and promote what she calls “La French Tech”. Mr Hollande's heavy-handed treatment of entrepreneurs has softened. He back-pedalled from an early plan to raise capital-gains tax on start-ups after a mass online protest by entrepreneurs calling themselves “les pigeons”.

Even so, it will be a hard sell, and not only because of concerns about taxes. The French have a lingering ambivalence about disruptive technology, especially if it touches culture or threatens home-grown incumbents. Last year Arnaud Montebourg, the industry minister and Ms Pellerin's ministerial superior, rejected out of hand the idea that Yahoo might buy 75% of Dailymotion, a French online video-sharing site (Mr Montebourg is also on the American trip). More recently, a taxi strike turned violent when Uber, a mobile-app taxi service, set up business in Paris, where curb-side taxis are scarce. This was despite a now-thwarted effort to impose a compulsory 15-minute waiting time on all drivers to protect the city's licensed taxis.

In 1984 Mitterrand was so inspired by Jobs that his government promised a microcomputer in every French school. Apple computers were an option; there was even talk of Jobs building a factory in France. But, in the end, the government went with a home-grown manufacturer. The rest is history. ■

France and America

Mr Hollande goes to Washington

PARIS

A state visit gives France's president a chance to improve his country's image

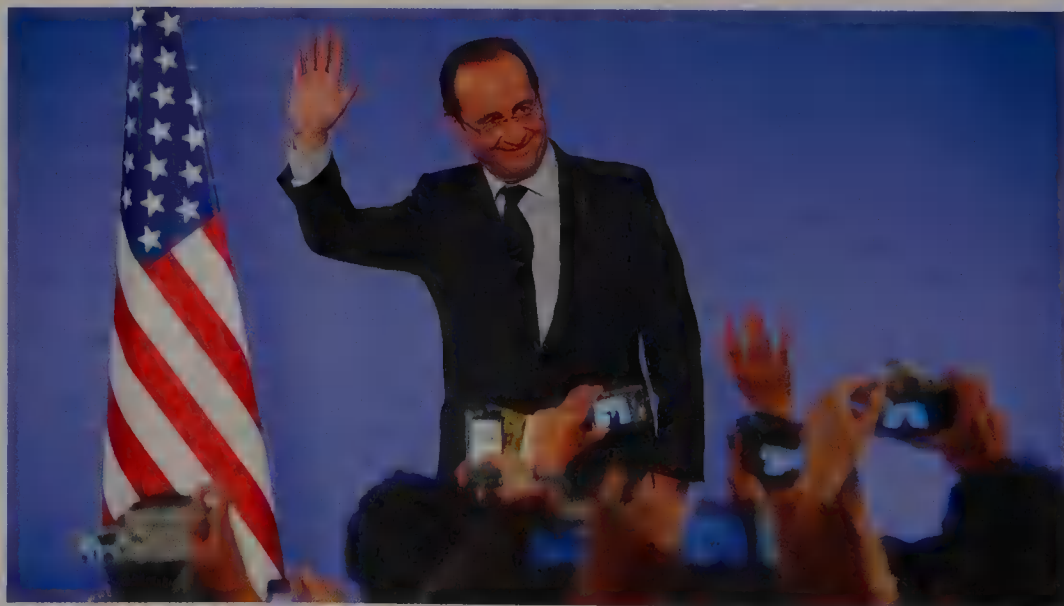
THIRTY years ago a French Socialist president flew to Silicon Valley to see the future. Coming from the country that invented the Minitel, François Mitterrand was a credible techno-enthusiast, and he was inspired by meeting a 29-year-old Valley entrepreneur called Steve Jobs. Next week another French Socialist president will drop in on the Valley as part of a three-day state visit to America. But François Hollande will come with a less tech-friendly image—and a need to persuade Americans that France is not about the past.

This is the first state visit to America by a French president since 1996. Mr Hollande will get full honours, including a black-tie White House dinner and a trip with Barack Obama on Air Force One. In many ways, the visit is well timed. France is not just America's oldest ally. Mr Hollande also has a claim to be America's most hawkish European friend, when there is concern over American disengagement. Since his election in 2012 he has sent French troops into Mali to push back an incursion by Islamists tied to al-Qaeda, and more recently into the Central African Republic to halt “pre-genocidal” warfare there.

In the Middle East, France has also shown surprising steeliness. Last August Mr Hollande vowed to “punish” the Syrian regime for its chemical-weapons attacks, and lined up fighter jets ready for retaliatory air strikes—until Mr Obama put everything on hold by seeking approval from Congress. In nuclear talks with Iran, Laurent Fabius, the French foreign minister, held up the deal to press for tougher guarantees. The French insist they are not out to rival Britain for America's affection—this is “not a beauty contest”, says one aide. Indeed, they were furious to be left dangling by the Americans over strikes on Syria. Yet

in many ways it suits America to have a fellow permanent member of the UN Security Council talking tough in the region.

On the Washington leg of his trip, Mr Hollande and Mr Obama have trickier matters to discuss, notably French concerns over the protection of private data and the tax status of big American firms such as Google. Yet Mr Hollande's stickiest moment will probably come in Silicon Valley. When Mitterrand met Jobs, he had turned the page on nationalisation, embracing private enterprise and “computing for all”. Mr Hollande has just announced his own U-turn, promising a more business-friendly approach, with lower payroll taxes and reduced public spending. But this has yet to be put into practice. Morale among American investors in France reached a new low in 2013, according to a poll. And Mr Hollande still has the reputation, as one French businessman with



So who wants croissants for breakfast?

Spain's right

A new Partido Té?

MADRID

By shifting to the right, Spain's prime minister risks losing votes to the centre

UNEMPLOYMENT is sky-high and growth is at best anaemic. Yet Spain's prime minister, Mariano Rajoy, has at last seen off his country's worst recession in decades, and can now start thinking about how best to recover lost votes before the general election that is due late next year. So why is he kicking things off by proposing a bill sharply to restrict abortion, an idea that is opposed by the vast majority of Spaniards?

The abortion bill, passed through cabinet during the Christmas period, is a reminder that, although Mr Rajoy's Popular Party (PP) claims to be liberal on economic issues, it is socially conservative. The bill would replace a woman's right to abortion on demand during the first 14 weeks of pregnancy with a system requiring proof of potential damage to a mother's mental or physical health. Four out of five Spaniards dislike the proposal. Even most PP voters think it unnecessary. And it comes with another new piece of legislation, a law-and-order bill giving the police extraordinary powers to fine people who are deemed to have insulted them, Spain or their local town halls. Fines for these last two can reach €30,000.

José Pablo Ferrándiz of Metroscopia, a pollster, says that PP voters see themselves as more moderate than their party. The abortion law may please half a million die-hard conservative voters, but it will cost votes in the centre where elections are won—and the upstart Union for Progress and Democracy (UPyD) is growing fast. The abortion bill is a gift to the opposition Socialists, boosting their otherwise lacklustre performance in the polls. It may give the party the lift it needs to win European elections in May. Many PP bigwigs know that, and are angry that Mr Rajoy has dusted off an election pledge to "reinforce protection of the right to life" and turned it into a hard-hitting proposed law.

A party that occupies most of the spectrum to the right of centre is bound to have internal conflicts. Mr Rajoy's most vocal critics are social conservatives and those on the right who see tax rises as a sell-out. Jaime Mayor Oreja, a conservative former interior minister, has declined to lead the PP into the next European elections. Alejo Vidal-Quadras, a former party boss in Catalonia and now vice-president of the European Parliament, has also quit.

He has joined the newly created Vox, a Spanish-style Tea Party backed by PP mal-

contents who think Mr Rajoy has gone soft and betrayed the party's liberal economic principles. They accuse him of tinkering rather than unleashing radical reforms to cut the regions' powers, slim the administration and squash separatist sentiment in Catalonia and the Basque country. Jorge San Miguel, an analyst at the Politikon blog, says Vox may have trouble winning parliamentary seats, but can still damage the PP by splitting off some of its voters.

Prominent among Mr Rajoy's critics is a former PP prime minister, José María Aznar. He stayed away from a recent PP convention, even though he is honorary president. Esperanza Aguirre, the Madrid party boss, is leading criticism of tax rises as the government struggles with a budget deficit that some say was still stuck at 7% of GDP last year. Ms Aguirre, an on-off rival of Mr Rajoy, says lower rates would boost tax revenue and accuses the budget minister, Cristóbal Montoro, of behaving like a social democrat.

Mr Rajoy has pledged to cut taxes next year. But loopholes and cheating mean that even high nominal rates still do not produce enough income. The top income-tax rate in the cash-strapped north-eastern region of Catalonia is 56%, one of the world's highest, according to KPMG, a consulting firm. Yet Spain's income from tax and social contributions is well below the EU average. Fiscal reform will have to be far-reaching if Mr Rajoy is to balance the books.

The economy, along with 26% unemployment, remains Spaniards' chief worry. If Mr Rajoy concentrated on that, he could yet beat the Socialists in the European elections. Going backwards on abortion can only damage his party's chances. ■

Italian justice

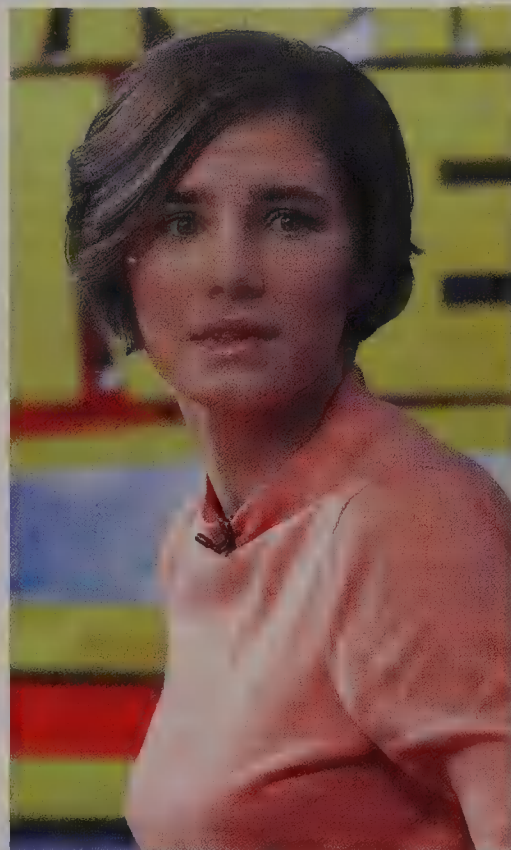
Untimely

ROME

Far from being unjust, the system may be too scrupulous—but also too lengthy

NOT for the first time, Americans are seeing Italy with a sort of double vision. In one eye stands a land of exquisite cuisine and glorious heritage (even if it is one that goes unnoticed by uncultured ratings agencies). In the other is a country with a moribund economy, widespread corruption, organised crime, Silvio Berlusconi—and a seemingly absurd and scary court system.

On January 30th appeals-court judges in Florence upheld the conviction of an American student, Amanda Knox, for the murder in 2007 of her British flatmate, Meredith Kercher, and sentenced her to 28½



Knox's innocent or guilty face?

years in jail. Ms Knox's Italian former boyfriend, Raffaele Sollecito, was given 25 years for the same offence. Yet the verdict jarred with some judicial precepts Americans see as fundamental.

First, it appears to violate the principle of double jeopardy (not being prosecuted twice for the same offence), since the couple's appeal succeeded in another court before the supreme court ordered it to be reheard. Counting pre-trial and trial, this is the fifth time judges have pored over the details of the case. And it is still not over: the defence plans a further appeal, partly because the presiding judge in Florence gave an interview in which he suggested that Mr Sollecito had prejudiced his case by refusing to testify. Americans might here put forward another precept: that justice delayed is justice denied.

The judges' decision also ignored "reasonable doubt". None of Ms Knox's DNA was found in the room where Ms Kercher's body was found (in contrast to that of Rudy Guede, a drug peddler from the Ivory Coast separately convicted of the murder). The other forensic evidence was hotly contested between experts. And the prosecution was allowed to propose a string of possible motives (including none at all).

So is Italian justice cockeyed? No, say its defenders: if anything, it is too scrupulous. Cases like this are not unprecedented. That of Adriano Sofri, a former radical left-wing leader accused of murdering a police officer, went through seven trials and appeals over 11 years from arrest to final (and still-controversial) conviction. Attempts to identify the serial killer known as the monster of Florence followed a similarly tortu- ►►

ous path, with the principal suspect dying before his final appeal was heard and his two alleged accomplices being convicted at least 26 years after the first murder.

An academic study in 2012* argued that American criticism arose from a misunderstanding of how Italian justice works. In Italy's inquisitorial system, detailed appellate reviews "must be viewed as part of the plurality of voices the Italian justice system deems necessary to provide fairness and determine the truth."

Yet, as the paper also acknowledges, the Italian system is not wholly inquisitorial. A reform in 1989 aimed to make it adversarial, as in English-speaking countries. But, as so often in Italy, it ended in compromise. There are no juries, for example, but lay judges sit with professional ones in more

serious cases, so they rule on points of law as well as fact. Although media coverage is not restricted to what is said in court, and lay judges are susceptible to it, they are not sequestered (trials can last a year or more because hearings are not consecutive).

Antonio Manca Graziadei, president of the Italian branch of *Avocats Sans Frontières*, a lobby group, points to another problem. The 1989 reform transferred the supervision of investigations from the police to prosecutors. That, he says, both demoralised investigators and removed a vital check. Before, the police had to present their evidence to a prosecutor who, if he judged it inconclusive, would not proceed with a case. Now it is his own handiwork, and if he does not ask for an indictment, he may be accused of wasting public money. "There is an absence of independent scrutiny in the early stages," says Mr Manca Graziadei. "If there is not really any solid proof, as a result of bad investigation, judges can take different views." ■

* "Scales of Justice: Assessing Italian Criminal Procedure Through the Amanda Knox Trial" by Julia Grace Mirabella. *Boston University International Law Journal*, Vol. 30, No. 1, January 2012.

Polish energy policy

A different Energiewende

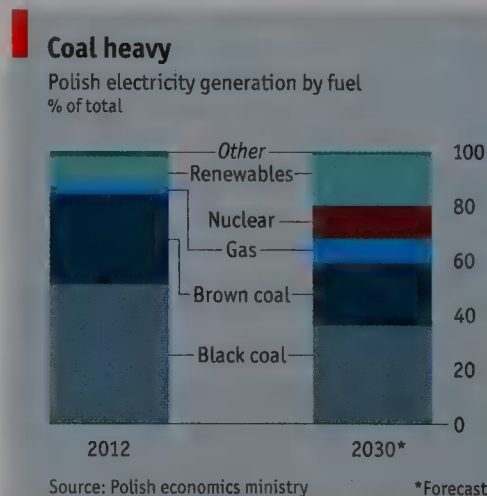
Poland moves a step closer to its own nuclear energy

AFTER debating the possibility of nuclear energy for years, the Polish government has at last come up with a scheme. On January 28th the economics ministry presented a detailed 150-page plan paving the way for the construction of two nuclear-power plants. By 2016 the sites of the two plants will be picked. Two areas close to the Baltic coast, Choczewo and Zarnowiec, are on the shortlist. Three years later construction is to begin and, by 2024, the first plant should be producing power. A state-owned energy company, PGE, will manage the project, which will cost an estimated 40 billion-60 billion zloty (\$13 billion-19 billion).

The government's adoption of the scheme is the most important step so far in preparations for the construction of the country's first nuclear-power station, says Andrzej Bobinski at Polityka Insight, a think-tank in Warsaw. But it does not guarantee that any Polish atoms will actually be split. The scheme fails to answer two of the most important questions: how can it be financed? And how can it be made profitable? The government insists that no public money will be used to build any nuclear-power plant, so it needs to find a private company or a consortium that is willing and able to make such a huge and risky investment.

Kai-Olaf Lang from the Stiftung Wissen-

schaft und Politik, a think-tank in Berlin, agrees that many questions hang over Poland's nuclear-energy ambitions. "A lot depends on the European Union's decarbonisation policy," he says. Poland is the EU's largest lignite producer, and more than 80% of the electricity generated in the country comes from coal (see chart). Until now Poland has just about met its EU obligations to cut CO₂ emissions. But last month the European Commission invited EU countries to reduce their greenhouse-gas emissions by 40% by 2030, after planned cuts of 20% by 2020 (all relative to 1990 levels). It also wants a "binding" EU-wide target of at least 27% for the share of



renewables in the overall energy mix.

Another issue for Poland's nuclear future is public opinion. Surveys have found a majority of Poles in favour of nuclear energy, but this could change, particularly when the proposed site of a nuclear-power plant is close to home. Poland has an election next year. The opposition Law and Justice party, although it has been more enthusiastic in the past about nuclear energy than the ruling Civic Platform party, is now calling for a referendum.

Shale gas could also play a role. Until now, the exploration of shale gas in northern Poland has moved at a snail's pace, thanks to a combination of bureaucracy and environmental worries, much to the frustration of foreign investors. The government is trying to change this. On February 5th the environment ministry announced a new shale-gas law intended to cut red tape and regulatory obstacles. To investors' relief, NOKE, a state operator, will not be part of the licensing process. "I believe this will encourage exploration," says Kamlesh Parmar, chief executive of 3Legs Resources, an investor.

Krzysztof Kilian, a former boss of PGE, doubts that the government can embark on the production of nuclear power and shale gas at the same time, as both require gargantuan investments. Meanwhile, Russia is building a nuclear-power plant in Kaliningrad, the Russian exclave north of Poland. So far Poland and Lithuania have both declined Russian offers to export power to their countries, as both are trying to reduce their dependence on Russian energy, which is overwhelming in Lithuania's case and considerable in Poland's. In June last year the construction of the plant was temporarily suspended.

"The Polish government does not have a consistent energy policy," complains Mr Bobinski. It seems to be hedging its bets with the nuclear projects while trying to speed up shale-gas exploration and watching the price of CO₂ emissions. Whereas Germany has embarked on its controversial *Energiewende*—a retreat from nuclear energy—with Teutonic rigour, Poles are still hesitating about which way to turn. ■

Charlemagne | Keep the door open

How Europe nearly lost Ukraine—but may yet regain it



“WE ARE not in a bidding war with Russia” is the refrain of senior Europeans whenever they talk about the turmoil in Ukraine. In fact, they sometimes are. Now events in Kiev, particularly cack-handed attempts to suppress its protests by force, have given the European Union an unexpected chance to try again with the offer that went spectacularly wrong two months ago. Indeed, the EU could yet help to pull Ukraine back from civil strife and salvage its battered European ideals.

November’s Vilnius summit with the EU’s eastern neighbours was meant to be crowned by the signing of an association agreement and all-encompassing trade deal with Ukraine. It would have extended to it most of the EU’s single-market rules. But President Viktor Yanukovich unexpectedly rejected the deal and turned instead to Russia, which had threatened to squeeze out imports and also offered a \$15 billion loan and cheaper gas—all in hopes of luring Ukraine into its own Eurasian customs union.

Outraged Ukrainians took over Kiev’s Independence Square (Maidan), rather as in the Orange revolution in 2004 (also directed at Mr Yanukovich). The president’s attempts to deal with the challenge with violence only made things worse. In January Mr Yanukovich pushed through repressive legislation, copied from Russian laws, and tried to clear the streets by force. This led to bigger protests, the death of several demonstrators, concerted pressure (rather more effectively from America than from the EU) and a semi-revolt by oligarchs. Taken aback, Mr Yanukovich sacked his prime minister, offered a conditional amnesty and is now seeking a deal with his foes.

Thanks to this, the EU is back in the game. Its foreign-policy chief, Catherine Ashton, went to Kiev this week to encourage a deal between Mr Yanukovich and the opposition. So did Victoria Nuland, America’s assistant secretary of state for European affairs. The two weeks of the Sochi Olympics hosted by Russia’s president, Vladimir Putin, may offer a window for diplomacy to pull Ukraine back from what Leonid Kravchuk, a former president, has called “the brink of civil war”. Thereafter, Mr Yanukovich may feel less restrained from more violent tactics.

The Europeans disagree over what went wrong. To some, Mr Yanukovich played them as fools, using the EU deal to improve Russia’s offer. To others, the EU was wrong to insist on the release

of Yulia Tymoshenko, a former prime minister jailed by Mr Yanukovich. A third theory holds that the EU offer lacked a crucial element: the promise of eventual EU membership. A fourth says the very notion of an “eastern partnership” was misconceived. It was born out of the failure in 2008 to put Ukraine and Georgia on the road to NATO membership. Extending the EU’s economic border, as opposed to NATO’s military one, was seen as less provocative. But Russia came to treat it as equally objectionable.

All these debates have now been overtaken by events. The brutishness of Mr Yanukovich and the feistiness of the protesters (despite less savoury radicals in their midst) means the key question is no longer the terms of any deal with the EU but the nature of government in Ukraine. Is Mr Yanukovich a man the EU can do business with? Little matter. Lady Ashton is focusing on a constitutional settlement to reduce the president’s authority, and possibly early elections. Was it a mistake to stake all on the flawed Mrs Tymoshenko? She is now a sideshow. The immediate issue is the proposed amnesty for jailed protesters. Did the EU make the right offer? Irrelevant for now. The association agreement has been set on one side.

Attention is now on a new economic package from the EU and the IMF. This is not necessarily dependent on the association agreement, but rather on a new government undertaking economic reform. “Our offer is easier,” says one European minister. “Our condition is that Ukraine should start fixing its economy. Russia’s condition is that Ukraine should become a vassal.”

Europe’s task

None of this offers certainty that Ukraine can resolve its conflict or become a modern European democracy. Russia cares more about losing Ukraine than the EU cares about winning it. Still, the sight of protesters flying the EU’s blue flag with gold stars over the snow-covered barricades with a fervour unseen in the drizzle of Brussels should give Europeans pause for thought. If the cause of Europe has any meaning, it is surely the idea of promoting liberty and democracy, and overcoming divisions, across the continent.

It must ultimately be for Ukrainians to decide where they stand between east and west. But beyond immediate crisis management, the EU can do two things. Right now it should make clear, like the Americans, that it will impose sanctions on those who use force to steal the country’s wealth, and on oligarchs who support a rotten system. Even without Belarus-style visa bans and asset seizures, much can already be done: Schengen countries can blacklist individuals, and money-laundering rules require banks to watch out for suspicious activity in the accounts of “politically exposed persons”. In the medium term, Europe needs fully integrated energy markets and grids, including Ukraine’s, to reduce the scope for Russian blackmail.

In the longer term, Europe can give Ukrainians new hope by keeping the door open to Ukraine’s membership of the EU. True, enlargement is not a popular cause in times of crisis. But Ukraine will not become a candidate in the near future. The EU needs only to reaffirm article 49 of its own treaty: any European state that abides by European values is eligible to join. The “perspective” of membership will not solve everything. But it helps reform-minded countries to undergo wrenching economic and political change. Europe is not omnipotent. But it still offers a potent symbol to its neighbours. ■

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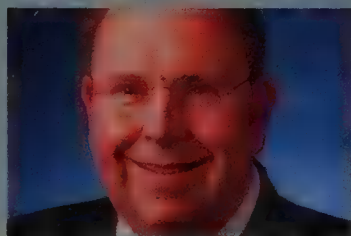
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Ethnic minorities

Into the melting pot

The rapid rise of mixed-race Britain is changing neighbourhoods—and perplexing the authorities

ZADIE SMITH, a novelist born to a black Jamaican mother and a white British father, recently recalled that when she was growing up in Willesden Green, a London district with a large immigrant population, “nothing could be more normal than a mixed-race girl”. The surprise, she said, was entering publishing and finding that people thought it unusual. Nobody could get that impression now: Britons are mixing at extraordinary speed.

The 2011 census revealed a country that is decreasingly white and British: England’s ethnic-minority population grew from 9% of the total in 2001 to 14%. But the biggest single increase was in the number of people claiming a mixed-ethnic background. This almost doubled, to around 1.2m. Among children under the age of five, 6% had a mixed background—more than belonged to any other minority group (see chart). Mixed-race children are now about as common in Britain as in America—a country with many more non-whites and a longer history of mass immigration.

As Britain’s mixed-race population swells, another group appears destined to shrink. The Labour Force Survey reveals that 48% of black Caribbean men and 34% of black Caribbean women in couples are with partners of a different ethnic group—with higher proportions still among younger cohorts. Black Caribbean children under ten years old are outnumbered two-to-one by children who are a mixture of

white and black Caribbean.

Rob Ford of Manchester University points out that Caribbean folk are following an Irish pattern of integration, in that their partners are often working-class. The Irish parallel also suggests they will eventually be fully absorbed into the British population. Polls show that adults who are a mixture of white and black Caribbean tend to see themselves not so much as

black, Caribbean or even as British, but rather as English—the identity of the comfortably assimilated.

Indians, who began arriving in large numbers in the 1960s, were slower to mix. They are now doing so—but along Jewish, rather than Irish, lines. For them, assimilation follows education: according to research by Raya Muttarak and Anthony Heath, Indians with degrees are far more likely to marry whites. Indians are not so much marrying into the white majority as into its suburban middle class, says Shamit Sagar at the University of Essex.

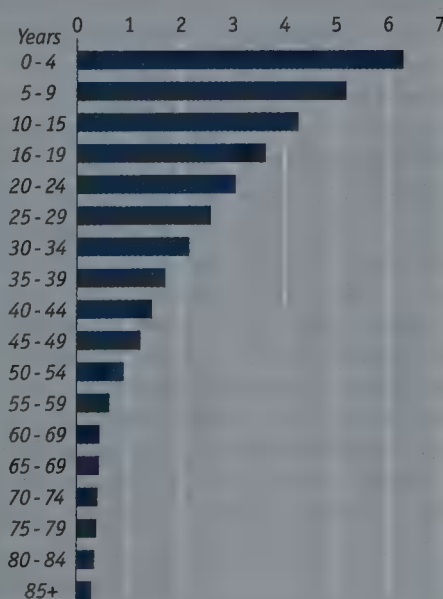
Their children are quietly transforming Britain’s suburbs and commuter towns. Whereas Asians are still concentrated in cities such as Leicester and in London boroughs like Tower Hamlets and Harrow, mixed Asian and white children are widespread (see maps on next page). In Chiltern, an affluent commuter district in Buckinghamshire, 5% of children under five years old were mixed Asian and white in 2011—more than in most of London. Their parents may have met at university or while working in the capital. Within Birmingham, too, mixed Asian and white children are especially common in the largely middle-class white suburbs of Edgbaston, Moseley and Harborne.

Still warming up

Pakistanis and Bangladeshis mostly remain in cities, and are mixing more slowly. Just 8% of Pakistani men and 7% of Bangladeshi men in couples are with people of a different ethnic group, and the proportions for women are smaller. Oddly, older Pakistani men are more likely to have partners of another ethnicity, perhaps because many early migrants were single men. But even these groups are assimilating: another study finds that Pakistanis and Bangladeshis born in Britain are far likelier to so- ▶▶

The shape of things to come

Mixed-ethnicity, by age group, % of total, 2011

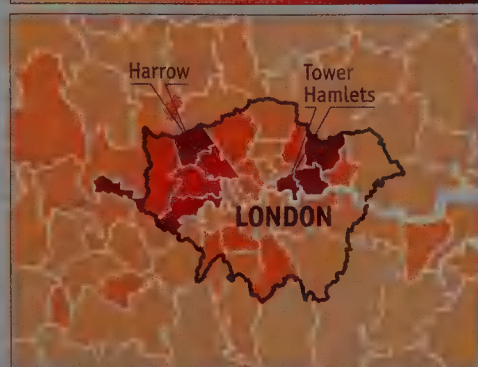


Source: ONS

Out with the new

Population, %

0.1 Asian 50.0



Source: ONS

0.1 Mixed Asian/white, under five years old 6.0



►cialise with whites than their parents were.

Britain's newer minorities are blending into the larger population, too, but in ways that defy easy categorisation. Mixed black-African and white children are particularly common in working-class suburbs and commuter towns such as Croydon and Southend-on-Sea, possibly because black Africans are rarely tied to city centres through social-housing tenancies. They are also mixing with new immigrants from continental Europe. Most of the 21,000 children born to Polish mothers in 2012 had Polish fathers; but of the rest, 23% had African or Asian fathers.

Such esoteric partnerships can confuse the authorities. Last November the Home Office invited journalists to accompany officers on a raid of an apparent sham wedding between an Italian man and a Chinese woman in north London. After interrogating the bride, groom and guests, the officers emerged sheepishly to admit that the union was probably real.

As race becomes less clear-cut, schools, hospitals and police forces, which record people's ethnic identity at almost every opportunity, will have to deal with more fragmented definitions. So too will researchers trying to measure racial injustices. Confusingly, police officers now record the ethnicity of the people they stop and search according to two separate systems: observed ethnic appearance (which does not include a mixed-race category) and self-identified ethnicity (which does).

Politicians in the habit of treating Britain's ethnic groups as distinct "communities" will also have to adapt. The shrewder black and Asian politicians have already built power bases that do not depend on ethnic block votes (see Bagehot). Speeches such as the one made by Tony Blair in 2007 about the culture of black youth violence will look silly when so many black teenagers have white parents too. Crude racist politics, thankfully now rare in Britain, ought to become almost impossible as more white families acquire non-white

members. Englishness, which has remained distinctly a white identity for many, may become less exclusive.

Most of all, the rise of mixed-race Britain shows that Britain is capable of absorbing even large numbers of newcomers. For the young, who are used to having people of all backgrounds in their midst, race already matters far less than it did for their parents. In a generation or two more of the melting pot, it may not matter at all. ■

Booze-free bars

Shaken not slurred

Fashionable urbanites revive a temperance tradition

WEST LONDON, Friday night, 9pm. In the Redemption bar, music hums and candles flicker. A barman shakes cocktails under a neon sign. But the rowdy carousing often associated with British pubs at the weekend is absent. Although the cocorita is served with a margarita-style rim of salt, it contains no alcohol. Redemption is one of a small but growing number of drinkeries that serve no liquor.

Worries about booze are on the rise. Hospitals complain that alcohol-related admissions are soaring; some police chiefs have called for new powers to tackle disorderly drunks. On February 4th the Home Office announced a new plan that ought to stop retailers from selling alcoholic drinks below cost—something they occasionally do to attract shoppers. This, said Norman Baker, the Liberal Democrat minister in charge, would "stop the worst examples of very cheap and harmful drink".

Yet Britain is in many ways becoming more abstemious. In 2001 the average household consumed 1.5 litres of alcoholic drinks a week; by 2011, the latest year for which figures are available, that had fallen

to 1.1 litres. The young in particular seem to be giving up boozing: over the same period, the number of 18- to 24-year-old men admitting to drinking heavily at least once a week fell from 37% to 22%; women became less sozzled, too. This year four times as many people gave up booze for "dry January" as did so last year, says Emily Robinson of Alcohol Concern, a charity. Dry bars benefit from this fad: Redemption's customers quadrupled between December and January.

Abstemious bars have also opened in Liverpool and Nottingham, and are planned for Brighton and Newcastle—two famously high-living towns. Unlike many cafés, they stay open late. They emulate bars in other ways, with live music, comedy acts and films to pull in punters. When the lights go down and the DJ plays at Sobar, which opened in Nottingham in January, it looks like any city bar, hopes Alex Gillmore, the manager. Redemption misses the hefty profits made on alcohol, but temperance brings its own benefits. Business remains steady throughout the week rather than spiking at the weekend, says Catherine Salway, its founder. The absence of drunken, obstreperous patrons means that bouncers are unnecessary.

Sobar, like the Brink in Liverpool, is linked to a do-gooding drug and alcohol charity. But ordinary drinking dens are becoming a little drier, too, out of business sense rather than temperance principle. Pubs can make almost as much selling food as drink—and more are serving it. Both in pubs and at home, less boozy drinks are becoming popular. Total sales of beer by volume dropped slightly in the year to January, but those of the weaker kinds, with just 1.3-3.3% alcohol by volume, jumped 32%, according to Kantar Worldpanel, a market-research firm. Sales of "adult" sparkling soft drinks are growing too. Perhaps the café-culture British politicians have so long yearned for is at last emerging. A sobering thought. ■



None for the road

Bagehot | An urban phoenix

David Lammy has rebuilt his political career on Tottenham's unpromising soil



IT WAS while David Lammy was recalling his time in the Boy's Brigade, at the Miller Memorial Methodist church in Tottenham, that Bagehot and he came across the memorial to a killing. A wilted bouquet wrapped in cellophane, it was taped to a lamp-post, across the road from the small brick church where the 41-year-old Labour MP had once worshipped and played. "Knife crime," he said softly.

A hard line separates Mr Lammy's childhood in Tottenham, as the son of hard-up immigrants from Guyana, from that of many other youths in London's poorest and most unsettled constituency. His upbringing was marred by race riots in 1981—including the murder of a policeman on the tough Broadwater Farm housing estate where Mr Lammy spent much of his childhood—and an absent father. Yet his mother grafted and scraped. Mr Lammy went to a boarding school on a choral scholarship, then to the University of London and Harvard law school. "It was a typical immigrant story," he says. It was also a better time to be poor, he suggests, supported by institutions, like the church, youth clubs and trade unions, which are all now weakened or gone. Recreating them is one of the ideas Mr Lammy, who is emerging as a powerful moral force in British politics, has been wrestling with—including in a startling credo, "Out of the Ashes".

Mixing autobiography with public policy, the book was intended as a reflection on three consecutive Labour governments. Yet it emerged as an early, and still unparalleled, commentary on Britain's 2011 riots, an eruption that started in Tottenham after police shot dead a local criminal, Mark Duggan. Mr Lammy identifies two broad failings, common to Labour policymakers and the rioters, and still evident in Britain.

The first is a tendency, wrought by 1960s hedonism, to view the individual in isolation from society. The second is the habit—a legacy of Thatcherism—of judging progress in purely financial terms. For the looters in 2011, life's possibilities could be boiled down to a pair of coveted sneakers. The same could almost be said of Gordon Brown and tax credits, a subsidy for the poorly paid that the last Labour prime minister sometimes presented as a panacea for social problems. Many on the left went on to attribute the riots to poverty. Mr Lammy vigorously disagrees with that: the rioters were motivated by greed and boredom, he says.

Mr Lammy's big observations are not original. Yet the deftness he showed over the riots—calling for peace and reason while Tottenham burned—and then in print, has been impressive. A moderate man speaking up for the troubled community that produced him, Mr Lammy looks like the paragon of an inner-city MP. After an inquiry into the Duggan killing ruled it lawful last month, he carefully condemned the mendacious handling of the case by the police, while offering no encouragement to the dead man's belligerent supporters. Rarely, in recent times, has a British politician so conspicuously kept the peace. This was timely. Because Mr Lammy's credo is also a manifesto.

He is expected to seek his party's nomination for the 2016 London mayoral election, which, after two terms of Tory rule under Boris Johnson, Labour should win. He may not get it: most bookies favour Tessa Jowell, a former culture secretary, who is likeable, wealthy and widely praised for her involvement in the London Olympics. Mr Lammy, by contrast, underwhelmed as a junior minister; an inept performance at the dispatch box as constitutional affairs minister was considered at the time to have dashed his career. Yet, rebuilding from Tottenham, he has done much to remedy this. Ms Jowell never won such plaudits in government as he has done over the riots.

In a contest that rewards distinctiveness, he is a free thinker; and in the many communitarian prescriptions that fill his book, including a new civic service, restorative justice for young offenders and American-style community housing trusts, he has a platform to hand. In an age of bland, middle-class politicians, his personal story would tell well on the campaign trail. Mr Lammy would also be the first black Briton to hold prominent office.

He would accept that mantle warily, there being little demand for a "British Obama"—the phrase tried out, at some time or other, on most black MPs. The black population is too small. Moreover, Britain, and London especially, is fast becoming colour-blind. This was the silver lining to the 2011 storm: the rioters were black, white and mixed-race, as diverse as they were unruly. Mr Lammy, whose wife is white, calls race "the dog that didn't bark" in the tumult. "Integration is something we're actually pretty good at in this country," he reflects.

Can he do it?

Mr Lammy could make it to City Hall. More pressingly, however, he offers a useful lesson to a generation of politicians who seem stricken by their poor standing with the public yet powerless to improve on it. It is to describe the world as it is—even where that runs contrary to policy fads or party diktat. It is this that has given Mr Lammy his new strength, a brand of authenticity that owes nothing to outspokenness or lack of polish. Where his Westminster colleagues are prone to cut and dice society, distinguishing native from foreign, givers from takers, Mr Lammy understands that it is diverse and fluid. Most young people in his constituency spent the nights of riot, he often recalls, shut up fearfully at home—as he himself once did.

They appreciate this in Tottenham. On a walkabout with Bagehot, Mr Lammy is stopped repeatedly, by poor people with problems, by star-struck police officers and by those simply wanting to say hello. A bus driver veered wildly across the road as he lifted his hands off the steering wheel in a two-fisted salute. "Hey brother!" Mr Lammy called back, seemingly unfazed. You can't take Tottenham out of the man; the question is whether he can get himself out of Tottenham. ■

Government-to-government trade

Unbundling the nation state

Countries have started to outsource public services to each other

NIGERIAN pineapple for breakfast, Peruvian quinoa for lunch and Japanese sushi for dinner. Two centuries ago, when David Ricardo advocated specialisation and free trade, the notion that international exchange in goods and services could make such a cosmopolitan diet commonplace would have seemed fanciful.

Today another scenario may appear equally unlikely: a Norwegian government agency managing Algeria's sovereign-wealth fund; German police overseeing security in the streets of Mumbai; and Dubai playing the role of the courthouse of the Middle East. Yet such outlandish possibilities are more than likely if a new development fulfils its promise. Ever more governments are trading with each other, from advising lawmakers to managing entire services. They are following businesses, which have long outsourced much of what they do. Is this the dawn of the government-to-government era?

Such "G2G" trade is not new, though the name may be. After the Ottoman empire defaulted on its debt in 1875 foreign lenders set up an "Ottoman Public Debt Administration", its governing council packed with European government officials. At its peak it had 9,000 employees, more than the empire's finance ministry. And the legacy of enforced G2G trade—colonialism, as it was known—is still visible even today. Britain's Privy Council is the highest court of appeal for many Commonwealth countries. France provides a monetary-policy service to several west African nations by managing their currency, the CFA franc.

One reason G2G trade is growing is that it is a natural extension of the trend for governments to pinch policies from each other. "Policymaking now routinely occurs in comparative terms," says Jamie Peck of the University of British Columbia, who refers to G2G advice as "fast policy". Since the late 1990s Mexico's pioneering policy to make cash benefits for poor families conditional on things like getting children vaccinated and sending them to school has

been copied by almost 50 other countries.

When China realised in the run-up to the 2008 Beijing Olympics that it needed to improve its air-safety regulations, it could just have looked around for the best examples and come up with its own version. Instead it asked America's Federal Aviation Administration (FAA) to write a new rule book and to train Chinese pilots. The FAA now has full-time offices in Beijing and



Shanghai. Trinidad and Tobago, which decided in 2010 to computerise its register of motor vehicles, bought a system from the government of the Canadian province of Nova Scotia. Moldova, keen to beef up its regional development, has recently signed a twinning agreement with CIVILPOL Conseil, an arm of the French interior ministry, which involves borrowing French civil-service staff.

Budget cuts can provide another impetus for G2G trade. The Dutch army recently sold its Leopard II tanks and now sends tank crews to train with German forces. That way it will be able to reform its tank

squadrons quickly if they are needed. Britain, with a ten-year gap between scrapping old aircraft-carriers and buying new ones, has sent pilots to train with the American marines on the F-35B, which will fly from both American and British carriers.

Dispute resolution is a particularly lively part of the G2G market. Britain will soon play host to an arbitration court for Saudi Arabian disputes, helping to allay investors' concerns about the Gulf state's legal system. A growing number of countries, most with a history of British common law, want to become the preferred jurisdiction in their region or for a particular type of case. In 2011 Dubai's International Financial Centre threw open its courts to disputes from any country, provided the parties agreed to be bound by its decisions. Courts in the British Virgin Islands hear a good share of all disputes involving international joint ventures.

The most radical form of G2G is the delegation agreement: the government of one country providing a public service in another, which in effect cedes part of its sovereignty. In 2003 the government of the Solomon Islands, concerned at rising violence and falling tax revenues caused by corruption, asked the Australian-led Regional Assistance Mission to the Solomon Islands (RAMSI) to take over law enforcement. RAMSI brought in more than 2,000 soldiers and other personnel and succeeded in establishing the rule of law.

No one knows the size of the G2G market. Governments rarely publicise deals, not least because they fear looking weak. And there are formidable barriers to trade. The biggest is the "Westphalian" view of sovereignty, says Stephen Krasner of Stanford University: that states should run their own affairs without foreign interference. In 2004 Papua New Guinea's parliament passed a RAMSI-like delegation agreement, but local elites opposed it and courts eventually declared it unconstitutional. Honduras attempted to create independent "charter cities", a concept developed ►►

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by Paul Romer of New York University (NYU), whose citizens would have had the right of appeal to the supreme court of Mauritius. But in 2012 this scheme, too, was deemed unconstitutional.

Critics fret about accountability and democratic legitimacy. The 2005 Paris Declaration on Aid Effectiveness, endorsed by governments and aid agencies, made much of the need for developing countries to design their own development strategies. And providers open themselves to reputational risk. British police, for instance, have trained Bahraini ones. A heavy-handed crackdown by local forces during the Arab spring reflected badly on their foreign teachers.

Local governments, however, both have greater incentives to trade and face fewer barriers. Rapid urbanisation creates

urgent practical problems for cities: in 2009 the urban population in developing countries stood at 2.5 billion, a number expected to double by 2050. And, unlike countries, cities are not hobbled by issues of sovereignty, points out Benjamin Barber, of City University of New York in his book, "If Mayors Ruled the World".

Though its first partnership with the Chinese government—on the building of an industrial park in the city of Suzhou in the 1990s—took time to bed in, Singapore's government is marketing its urban know-how. Singbridge, a firm it controls, is involved in five urban-development projects in China. It is helping to build a "knowledge city" in Guangzhou, where it provides social services and plays a part in protecting intellectual-property laws. C40, a group of mega-cities keen to cut carbon

emissions, acts as a venue for policy exchange. Whereas countries struggle to agree on steps to control climate change, C40's members have no sovereignty to be infringed by their deals.

When San Francisco decided to install wireless control systems for its streetlights, it posted a "call for solutions" on Citymart, an online marketplace for municipal projects. In 2012 it found a Swiss firm, Paradox Engineering, which had built such systems for local cities. But though members often share ideas, says Sascha Haselmayer, Citymart's founder, most still decide to implement their chosen policies themselves.

Weak government services are the main reason poor countries fail to catch up with rich ones, says Mr Romer. One response is for people in poorly run places to move to well governed ones. Better would be to bring efficient government services to them. In a recent paper with Brandon Fuller, also of NYU, Mr Romer argues that either response would bring more benefits than further lowering the barriers to trade in privately provided goods and services. Firms have long outsourced activities, even core ones, to others that do them better. It is time governments followed suit. ■

The winter Olympics

Hot or cool?

Few young viewers watch the winter Olympics. New events in Sochi are supposed to change that

EVEN before the opening ceremony, a record had been broken at Sochi: 12 new events, the most for any Olympics, were scheduled to make their debut. Since the first winter Olympics in 1924, the total has swelled from 16 to 98 (see chart). Some of the latest batch, such as the women's ski jump, are variations on existing events. Others will be less familiar to the mainly middle-aged audience. This is as the organisers intended.

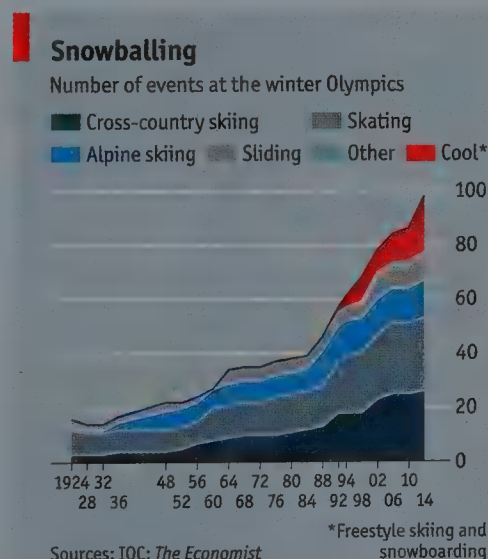
More than half of all Americans who watched the 2010 winter Olympics on NBC were over 50. Teenagers hardly tuned in. For the main sponsors, which included Coca-Cola and McDonald's, as well as for broadcasters and advertisers, this was bad news. Teenagers, in particular, have a big influence on their families' spending habits.

In 1948 the BBC offered 1,000 guineas (\$47,000 in today's money) for the right to broadcast that year's London summer games. The organisers, fearing this would be too much of a financial strain for the broadcaster, turned it down. That amateur spirit has long since gone the way of the tug-of-war event (dropped in 1920); global broadcasting rights have been the games' biggest revenue stream for the past 30 years. In London 2012 they hit \$2.6 billion.

When planning the Olympics line-up, says Ian Henry of Loughborough University, organisers only recently started to think about how well a sport plays on television and with young people. They added snowboarding in 1998 and last year considered dropping one of the oldest summer Olympic sports, wrestling

(not the wildly popular choreographed kind). It won a reprieve by cutting the number of rounds, making scoring snazzier and adding more women's events.

This year's additions to a tournament that the organisers have branded "Hot. Cool. Yours" were chosen partly because they attract lots of YouTube views and Twitter followers. They include the ski half-pipe (tricks in a snowy half-dome to pumping music); snowboard slopestyle (a 655-metre mountain course combining stunts in the air, rails and very high jumps) and the luge team relay (a men's sled, women's sled and mixed sled sliding down an icy track one after another as fast as they can). It is all a far cry from curling, in which the team sweep the ice in front of a slowly moving stone—the thrill of which is nicely captured by the sport's nickname: "chess on ice".



Web addresses

The name game

New web domain names hit the market

AFTER the dotcom boom of the 1990s, the world is about to experience a boom in dots. Over 1,000 new generic top-level domain names (gTLDs) are set to join the 22 existing ones, such as .com and .org, and the 280 country-specific ones, such as .uk, that now grace the end of web addresses. The Internet Corporation for Assigned Names and Numbers (ICANN), the non-profit organisation that manages the web's address book, reckons this will boost competition and innovation. It will also increase the cost to businesses of protecting their brands.

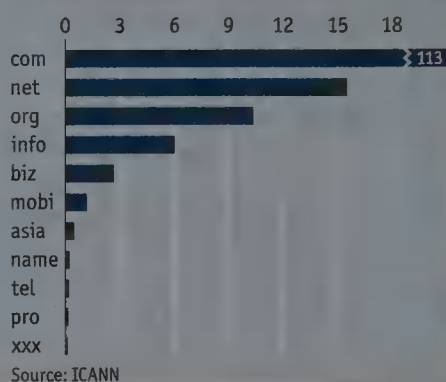
Some of the new gTLDs, such as .guru and .sexy, will flatter owners' egos. Others, such as .clothing and .photography, will be used by firms to tout their wares. Among the first to go live, on February 4th, was ".web" written in Arabic script. That made history: until now all generic top-level domains have been written in Latin lettering, meaning internet users with Arabic keyboards had to wrestle with ALT, CTRL and the like to type the last few letters of most websites' names. Other gTLDs in scripts such as Chinese and Russian will follow in the coming months. ►►

► Firms including Apple, Ford and IWC, a watchmaker, have already applied to register their names as gTLDs. That will allow them to ensure they are not used by crooks or cybersquatters. Google, Amazon and others have applied for numerous gTLDs, including .app and .kindle, presumably because they want to use them and think they can make money by selling the right to use “second-level” domains (for example, *economist.app*), typically for \$10-50 a year. Firms may also be keen to buy certain second-level domains to stop them falling into the wrong hands. Donuts, a company that has lodged hundreds of applications for gTLDs, has .wtf and .sucks on its list.

But there are costs to owning a gTLD. Firms must pay \$185,000 to ICANN when applying for one, plus \$25,000 for each year they use it. Deciding which ones to splash out on is tricky. New domains including .biz and .mobi have been added in the past, but have failed to put a dent in the wildly popular .com (see chart).

Dotcommon

Second-level domains per top-level domain
September 2013, m



The avalanche of new domains may also confuse web users, who often get to their destinations via search engines rather than by typing web addresses into browsers. Greater choice and competition should eventually bring them benefits. But the transition may be complicated. ■

The ivory trade

Up in smoke

NAIROBI

A push to stop poaching and save elephants from extinction

SIX tonnes of elephant tusks and ivory trinkets were destroyed in a tarmac crusher in the factory city of Dongguan in China on January 6th. Most of the 33-tonne stockpile of Hong Kong—home to many of the world’s most avid buyers of ivory—as well as those of several European countries will soon meet the same fate. In the past few years ivory has also been destroyed in the United States, Gabon, Kenya and the Philippines.

These scenes lack both the curling smoke and dramatic setting of the vast pyre of tusks burned in Kenya’s Nairobi National Park in 1989. (Most ivory is now destroyed by crushing, rather than burning, to avoid polluting the atmosphere.) But they may prove equally significant in the long fight to stop poaching and save the elephant from extinction.

The bonfire near Nairobi was the prelude to a global ban on trade in ivory, a collapse in demand and a lull in poaching that gave the African elephant population time to recover. But in the past five years poaching has picked up again. An estimated 25,000 elephants are killed each year by poachers, many of them linked to organised crime. In some places the species is close to being wiped out.

Hopes are high that a conference on the illegal wildlife trade in London on February 13th will give the coalition against ivory

poaching new impetus. Links between ivory traffickers and African militias such as the Lord’s Resistance Army, a thuggish band of guerrillas that originated in Uganda, have put the issue on the national-security agenda in America and elsewhere. The result is attention from political heavyweights including Bill and Hillary Clinton; John Kerry, America’s secretary of state; and David Cameron, Britain’s prime minister. African governments have agreed to

to beef up park patrols, create anti-poaching police units in the states where elephants roam and strengthen anti-poaching laws. The measures have so far been underfunded. Making them stick would cost an estimated \$300m over ten years, much of which it is hoped will come from the rich countries at the conference.

Though campaigners welcome the plan they argue that curbing the supply of ivory is not enough. Since 1989 countries with elephant populations have twice been allowed to sell stockpiled ivory from elephants that died naturally under CITES, a global agreement on international trade in endangered species. Before the second sale, in 2008, conservationists warned that it would revive the market in China, where ivory ornaments have long been prized and make poaching profitable once more. They were right. The ivory bought by the Chinese government is drip-fed onto the domestic market at a rate of five tonnes a year. That comes nowhere close to meeting demand, estimated at 200 tonnes a year. And the sales have coincided with an explosive increase in poaching.

Governments should destroy their stockpiles and ban the sale of ivory from any source, argues Alex Rhodes of Stop Ivory, a group that is raising money for the anti-poaching plan. Legal sales not only stoke demand, but create ambiguity about the legal status of all ivory, providing cover for the sale of poached items.

Peter Knights of WildAid, another lobby, compares ivory trafficking to the drugs trade. Enforcement is a losing battle, he says, and the only way to end poaching is to choke off demand. Yet a ban on ivory sales combined with clever advertising might work. A campaign supported by stars to wean Chinese consumers off shark fin nudged their government into dropping it from state banquets. Overall demand for the traditional delicacy has since fallen by half. ■



Tusk force



A shrunken giant

The British oil company is safer, smaller, sadder and wiser since its disaster in the Gulf of Mexico

SHAREHOLDERS in BP used to be a complacent bunch. Now they are battle-hardened. The company has taken a pounding since the Deepwater Horizon disaster in 2010. In the aftermath of the explosion in the Gulf of Mexico its share price fell by half. The company froze dividends and had to sell assets worth \$38 billion, including half of all its offshore platforms and refineries, to help meet a \$42 billion charge for the clean-up, compensation and other costs. Litigation is likely to go on for many years and the payouts could rise well beyond that total.

Against that background, the quarterly results announced on February 4th looked positively cheerful. BP has raised its dividend and will continue with a vigorous programme of share buy-backs, paid for in part by a further \$10 billion in sell-offs. Though BP says that these divestments were mostly of non-core assets, the company is now a lot smaller. Excluding Russia, it used to pump 3m barrels of oil a day. Now the figure is 2.25m.

That underlines the importance of the company's involvement in Russia, which adds nearly 1m barrels a day to the total. Its previous adventure there, TNK-BP, was lucrative but bumpy, thanks to a dispute with strongheaded oligarch partners who disliked playing second fiddle to London. Last year BP escaped from that, raising \$12 billion in cash and gaining a nearly 20% stake in Rosneft, Russia's biggest and best-connected oil company, in exchange for its stake in TNK-BP. Rosneft is run by Igor Se-

chin, a close friend of President Vladimir Putin. It has feasted on the remains of Yukos, an oil company which became the most notable victim of Kremlin ire.

Critics decry BP's tight embrace with its controversial Russian partner, and the pressure some say it now exerts on the British government to pursue a Russia-friendly policy. It could set a precedent for Kremlin-backed companies wanting to make comparable acquisitions in Britain. Some even call BP "Britneft".

But for now the deal seems to be working well. Rosneft added \$11 billion to BP's revenues for the fourth quarter. Concerns about governance are dealt with promptly, said BP's chief executive, Bob Dudley, who sits on Rosneft's board. The relationship will last for decades, he declared, with a likely next stage being joint-venture on-

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shore exploration projects.

The company used to pride itself on size, and its newly shrunken state still takes some getting used to. "We broke the emotional hold of assets," said Mr Dudley, who praised "value not volume" while proudly detailing a catalogue of new investments. These include a big modernisation of the Whiting refinery near Chicago, plus exploration projects in Angola, Brazil, Egypt, the Gulf of Mexico and India.

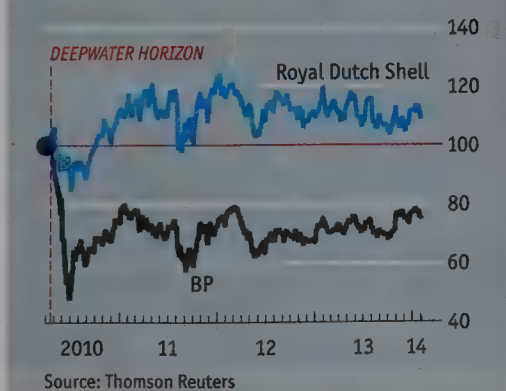
BP is also pushing back hard in its American legal battles, having at first taken a conciliatory and contrite stand (mistakenly in the view of those familiar with American tort litigation). At BP's behest, a court has appointed an independent investigator, Louis Freeh, a former FBI director. The firm has taken out punchy newspaper advertisements to highlight some of the imaginative-sounding claims it has been ordered to pay. These include coughing up \$7m to a law firm which BP claims had ties with the court-appointed lawyers who administer the settlement, and \$357,000 to a shrimp fisherman whose tax returns, it says, show that he was unemployed at the time of the oil spill in the Gulf.

All this comes at a price: the bill for the American litigation is already over \$1 billion, with another \$200m now being made available. "We love our lawyers," said Mr Dudley dryly. They may love him even more, especially as new legal battles loom. BP is still seeking an appeal ruling which would prevent payments to claimants whose losses are not traceable to the spill. A separate trial, in a speculative-sounding securities case where BP is being sued by holders of its American Depository Receipts, is due to start in October.

Another political controversy is looming over the independence referendum in Scotland. Mr Dudley cautiously highlighted the potential uncertainties over the currency and tax position, and higher costs of doing business, in a putative independent

The cost of a blow-out

Share price, April 1st 2010=100



► Scotland. He stressed that his worries about Scotland “drifting off” were a personal view, but his remarks were seized on by both sides.

Shareholders will be more interested in results. Despite the good news, the hard numbers were modest. BP’s earnings were down by 24% quarter on quarter, to \$2.8 billion (and by 27% year on year). One reason was the sell-off: the assets shed would have boosted profits by an annual \$5 billion. Another was weakness in the refining market, where returns are thin at best, and a sagging oil price. At least those woes afflict other oil companies too: BP’s arch-rival Royal Dutch Shell, which has fared well since 2010 (see chart on previous page), had to issue a profit warning last month. It

is now scrambling to sell assets too (\$15 billion in the next two years) and to cut capital investment.

Repairing the balance-sheet and books is one thing. Repairing BP’s reputation for management excellence will take longer. The poor safety record of past years reflected over-zealous cost-cutting. The more recent legal woes in America, and previous troubles in Russia, suggested that BP has been ill-run. Mr Dudley and his colleagues have yet to reverse that impression.

Other big oil companies are also having to be thrifter with their capital and nicer to investors. For BP, though, the question is how long it can continue splurging cash on its shareholders without becoming so slim that it is vulnerable to a takeover. ■

Microsoft’s new boss

Inside job

The technology giant has at last chosen a chief executive. His intended destination is clear, but his route is not

IN AN episode of “Father Ted”, a television comedy about three priests living on a windswept Irish island, another cleric turns up unannounced, claiming to be an old pal of the title character. Mrs Doyle, the priests’ housekeeper, tries to guess the visitor’s name. She reels off a litany that proceeds from the plausible (“Father Andy Riley”) via the ludicrous (“Father Peewee Stairmaster”) before somehow reaching the right answer (“Father Todd Unctious”). “I was just amazed that she got it in—wow—well under an hour,” grimaces Ted.

Divining the identity of Microsoft’s next chief executive has been a little like Mrs Doyle’s guessing game. After Steve Ballmer said last August that he would step down, the Redmond rumour mill churned out name after name, from Alan Mullaly, the boss of Ford, to Hans Vestberg, the chief executive of Ericsson. On February 4th the choice was confirmed: Satya Nadella, the Indian-born head of Microsoft’s cloud and enterprise group. Wow. Well under six months.

Mr Nadella, who has been at Microsoft for 22 years, is only the third chief executive in the company’s 38-year history. The first, Bill Gates, Microsoft’s founder, is standing aside as chairman. But he will be doing more rather than less. At Mr Nadella’s request Mr Gates will become “technology adviser”—though the new boss has all the geek credentials anyone could want. Mr Gates says that he will spend a third of his time at the firm. Recently he has devoted almost all his energy to the philanthropic foundation that bears the names of himself and his wife, Melinda. Like Mr Gates,

Mr Ballmer will stay on the board. The three men stood together before staff at Microsoft’s headquarters after Mr Nadella’s appointment.

Microsoft is still a mighty company: its revenues in the six months to December were \$43 billion, 15% more than the year before. Its net income was \$11.8 billion, up by 8.8%. It has a cash pile of \$84 billion and a market capitalisation of \$300 billion. Yet it has struggled to find its way in a world where the personal computer, on which its strength was built, is no longer king. Mr Nadella’s job is to set a course through what he calls a “cloud-first, mobile-first world”.

In cloud computing, Mr Nadella’s previous domain, Microsoft has been faring well, though it still has much to do. It is

hosting more businesses in its own data centres and has been selling more software as a continually updated online service. In the latest quarter revenue from cloud services was twice as big as a year earlier, at more than \$600m.

Alas, in mobile Microsoft is not first, but a distant third. Its operating system, Windows Phone, is far adrift of Google’s Android and Apple’s iOS. Its own tablet, the Surface, has been a flop, even if the company reported some improvement in the latest quarter. The purchase of Nokia’s mobile-phone division—by far the biggest maker of Windows smartphones—may do little to ease these difficulties. The division’s sales in the latest quarter were dreadful: down by 29%, year on year. The deal, which is due to be completed soon, will add 32,000 staff to a payroll already 100,000 strong.

The problem is not just that Microsoft has failed to win over consumers to its mobile devices but that this will threaten its omnipresence in the office. If people do not use Windows on smartphones and tablets, then—as they do more work on the move—they will use more business applications on iOS and Android and not on Windows, which still presides over much of office life. Analysts at Forrester, a research group, report that independent software vendors develop apps for the other systems first. “The mobile shift is the biggest threat yet to Windows’ enterprise dominance,” the analysts believe.

Part of the answer to this, Forrester suggests, may be to pay developers to write mobile apps for Windows. Part may also be to push the operating system less and apps more: Microsoft is expected to start selling its widely used Office suite of programs (which includes Word, a word-processor, Excel spreadsheets and PowerPoint slide shows) on iPads and Android tablets.

Although he professes enthusiasm for Microsoft’s own devices and for the Nokia deal, Mr Nadella may think the company will enjoy more success in writing software for the next incarnation of mobile devices. In an in-house interview on February 4th, he said: “Today we have a particular definition of mobile which is perhaps skewed towards the mobile phone.” He added: “If you think about how everything we do at home or at work is going to be digitally mediated...[it is] all going to be changed by software.”

The process of choosing Mr Nadella was a leaky shambles—no wonder, when more than 100 names were considered. At a weaker company, that might have done real damage, but the share price has not moved much in months. The new boss is a popular choice among Microsofters; Mr Nadella has a reputation for collaborating in a company better known for internal division. Maybe, like Mrs Doyle, Microsoft has found the right answer in the end. ■



Nadella, a head from the cloud

Google, the EU and antitrust

Search over

The third attempt at a settlement is likely to be the last

IN NOVEMBER 2009 Foundem, a price-comparison website, first complained to the European Commission about Google. The American company, Foundem argued, was exploiting its dominance of online search to the detriment of both competitors and consumers. The commission began an investigation a year later. On February 5th Joaquín Almunia, Europe's competition commissioner, said that he and Google, which carries out more than 90% of online searches in Europe, had reached an agreement. (Google's chairman, Eric Schmidt, is a member of The Economist Group's board of directors.) This is Mr Almunia's third attempt at a settlement in just under a year. He is confident that this one will stick.

The commissioner had four main worries, which he laid out in May 2012. The most important was that Google favoured its own search results (for flights, say, or to compare the prices of consumer goods) over those of specialist competitors. This has vexed him and the complainants, of which there are now 18, ever since. Microsoft, which has itself been in hot water with the commission in the past, is prominent among them. On the other three causes for concern—about Google using others' content without permission, exclusive advertising deals and restrictions on taking data to rival advertising platforms—Mr Almunia was satisfied long ago.

Try, try and try again

Twice before Mr Almunia and Google have reached agreement on changes to the way Google presents search results on its European domains (google.co.uk, google.de, google.fr and so on, but not google.com). Twice the commissioner has asked Google to think again, after "market tests"—experiments to show how the proposals might work in practice—suggested that the proposed displays would direct few if any searches away from Google.

For instance, in the second attempt, last October, Google agreed to insert links to three rival shopping sites below its own. American academics retained by Fair-Search Europe, a group whose members include several complainants, tested how these links might work in practice. For every search they reckoned that Google Shopping scored 36.7% of clicks, against 5% for rivals. Other clicks went to other parts of the page. For the mobile version, the skew to Google was greater still.

The suit business

Material differences

NEW YORK

Men's Wearhouse and Jos. A. Bank are proving hard to stitch together

CUFF-TO-CUFF combat has broken out in the buttoned-down business of selling suits to American men. Jos. A. Bank started the needle match in October, offering \$2.3 billion for its bigger rival, Men's Wearhouse. When that failed to measure up, Men's Wearhouse offered to buy Jos. A. Bank, first for \$1.5 billion, then for \$1.6 billion. Which can tailor a deal?

There is little growth in the suit market so both firms are under pressure to trim costs and either lead the consolidation of their industry or return money to investors. Men's Wearhouse has announced plans to run two candidates for election to the board of Jos. A. Bank, which in turn has boosted its "poison pill" anti-takeover defences and, it was reported on February 2nd, is now exploring buying Eddie Bauer,

a seller of men's casual clothes, in part to make itself a tougher target. The company's new focus on delivering short-term returns seems to have triggered the firing last June of George Zimmer, Men's Wearhouse's founder and front man, who featured in many adverts promising, "You're gonna like the way you look, I guarantee it."

Both firms argued that a merger would yield huge synergies. But as the two firms have different customers—Men's Wearhouse targeting younger, more fashionable men, Jos. A. Bank the more conservative, older chap—there would be few store closures. Men's Wearhouse hopes to extend to Jos. A. Bank customers its successful tuxedo-rental business, which now accounts for around a quarter of its profits.

One argument used by Men's Wearhouse in rejecting its rival's bid was that a merger would "raise significant antitrust concerns". Since it has become the bidder, it seems to have forgotten about this risk—which it surely exaggerated. A merger would create America's fourth-largest seller of men's clothing, behind Macy's, Kohl's and JCPenney. Meanwhile, a host of new online firms are starting to increase competition in the suit business.

The main obstacle to the merger is who would wear the trousers in the combined firm: Robert Wildrick, the boss of Jos. A. Bank, or Douglas Ewert, chief executive of Men's Wearhouse? Both firms' shares have risen by over a third since September, in anticipation of a merger, and, says Richard Jaffe of Stifel, an investment firm, "will fall back again if the deal isn't done." If managerial egos cause this deal to come apart at the seams, as Mr Zimmer might put it, shareholders aren't "gonna like the way it looks."



Or wait 80 years and buy it online

Now Mr Almunia has accepted a more marked change. When Google presents specialised searches, it will show links to rivals alongside, and in the same format. A search for outdoor gas grills, for instance, will bring up three Google Shopping results, labelled as such, next to three alternatives from other shopping search sites—but not from retailers directly. If Google's have pictures, so will the others. The mobile-phone version will show two of Google's and one other at first sight, with others visible by scrolling with the finger. If Google would normally charge for inclusion in the specialised search, the rivals' slots will be allocated by auction. If not, Google's normal algorithm, intended to promote the re-

sults most useful to the searcher, will decide what gets shown.

The upshot is that some Google searches will look different in Europe and America, and that Google's engineers will have to write different code to serve different markets. None of the European changes affects Google's maps, which are built into its search results. Google faced a similar investigation in America, but that ended just over a year ago with the firm making token concessions. A trustee will be appointed to oversee the European agreement for five years. If Google improves the display of its own results—say, by introducing video—it ought to do the same for the others.

The case is not over yet, but the chances ►►

are it will be soon. In explaining the settlement to the press, Mr Almunia said that he would write to all the complainants at length, setting out the reasons why he believes Google has done enough. He said he would listen to any criticisms they have, but added that after a three-year investigation he was "pretty confident" that his decision had "solid grounds".

Plenty of criticism is already heading his way. Both FairSearch Europe and ICOMP, another grouping of Google's adversaries, are fuming that Mr Almunia is planning no market tests this time. FairSearch Europe says such tests revealed the flaws in the first two proposals: so why not use them again?

The complainants also object to the auction for slots. Although only specialised sites will be able to bid, they argue that competition for prized space will force them to pay most of their profit to Google—so that Google scoops the pool wherever people click. FairSearch Europe calls the outcome "worse than doing nothing".

Google, pointing to the costs of maintaining a different face in Europe, might disagree. Then again, by reaching a settlement the search giant will avoid the risk that the commission will impose more onerous changes. It will be free of one legal encumbrance as it pursues its seemingly limitless spread of ventures. And Mr Almunia will doubtless be pleased to have the case off his desk at last, well before his term in Brussels ends in the autumn. ■

Trouble at the Panama Canal

Dead locks

PANAMA CITY

A \$1.6 billion row will have ripple effects on global trade at sea

ON FEBRUARY 4TH 1889 the French Compagnie Universelle du Canal Interocéanique de Panama was declared bankrupt, marking the first catastrophic failure to build the Panama Canal. On the same date this year (the centenary year of its completion in 1914) talks collapsed on how to finish the canal's expansion. Seafarers, a superstitious bunch, will not interpret this as a good omen.

After weeks of negotiations between the Panama Canal Authority (PCA) and a consortium led by Sacyr, a Spanish builder, and its Italian counterpart, Salini Impregilo, the two sides have failed to reach agreement on who pays for \$1.6 billion of cost overruns on their \$3.2 billion portion of the project to widen the waterway. The consortium, GUPC, said the endeavour was on "the brink of failure".

The PCA's head, Jorge Quijano, said the consortium had downed tools the morning after the talks dissolved with the project only 70% completed. His team will now decide whether to hire new builders to complete the work, which may cost an-

other \$1.5 billion. "We will finish this job in 2015 with or without GUPC," he said, though he acknowledged there might be tough legal battles ahead.

The kernel of the dispute is a \$785m advance payment the PCA made to the consortium. Mr Quijano said GUPC had asked for a moratorium on repayment until 2018. The PCA, which has already granted a year's extra time, was prepared to extend it only until 2015. The row has pitted two forceful personalities against each other. Though coverage of the consortium has focused on Sacyr of Spain, it is Pietro Salini, the Italian businessman whose company last year bought control of Impregilo, who is said to be calling the shots.

Last month he accused Mr Quijano of inexperience on such big projects. He also implied that an Italian subcontractor, Cimolai, would not deliver a set of massive lock gates if GUPC loses the contract, setting the expansion back by three years. Mr Quijano told *The Economist* that sounded like "extortion".

The dispute has already cost precious time. It started in the early part of the dry season, the only four months when conditions are right for mixing concrete. During a visit on January 31st to a canyon-like expansion site on the Pacific coast, the concrete mixers were already inactive. There were few workers. It was a forlorn sight compared with a mural at the PCA's headquarters that shows the original canal swarming with labourers 100 years ago.

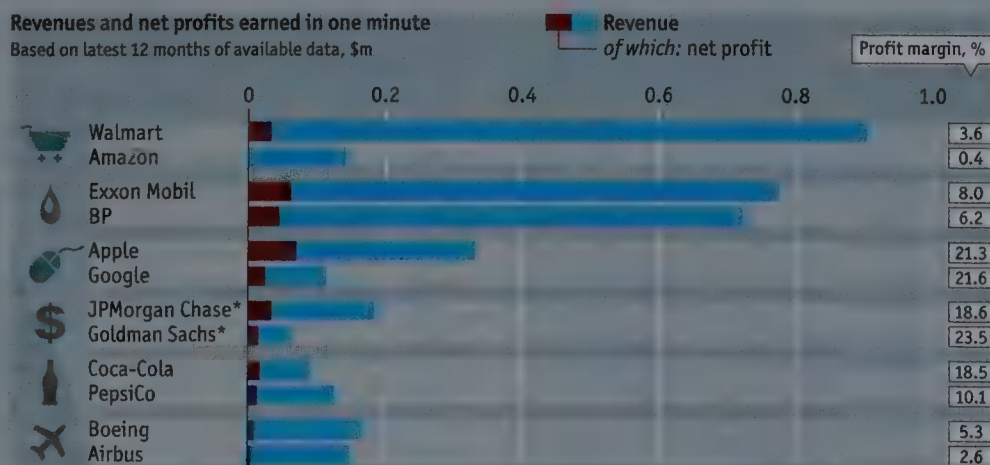
On the same day, Mr Quijano hosted the American ambassador to Panama at the expansion site, which he said underscored the importance of its completion to the United States, the canal's biggest user. The head of Miami's port was in Panama the same week. Miami has \$2 billion in port improvements under way that were originally timed to coincide with the opening of the expanded canal this year or next.

As far north as New York and New Jersey, authorities are deepening ports to cater for the "new Panamax" ships that will be able to carry almost triple the cargo that can currently fit through the canal on a single vessel (albeit at three times the toll, or about \$1m). Caribbean ports, too, are expanding. Shipping firms hope a larger canal will cut the time to take liquefied natural gas from America to Asia and containers in the other direction.

However, the dispute has drawn attention to the alternative routes for big ships, such as that to America from Asia through Suez, or using trains and trucks between America's coasts, or even relocating manufacturing to Mexico instead of Asia, experts say. Aaron Ellis of the American Association of Port Authorities says there is a common misconception that bigger ships depend on the canal's expansion. "It's a big, big event in world trade but it isn't the only game in town." ■

How corporate bedfellows compare

Amazon is a retailing juggernaut, but its revenues are still a fraction of those of Walmart, whose tills ring up about \$900,000 a minute. The bricks-and-mortar colossus turns in a modest profit margin, whereas Amazon is still being run on a basis of growth now, profits later. Comparing the revenues and net profits of companies commonly regarded as peers shows their relative commercial power (an interactive version of this chart is at economist.com/revrace). Google is often chided for its dominance, though Apple is far larger (and their profit margins are similar). Coca-Cola's sales are less than PepsiCo's but its margins are almost twice those of its arch-rival. In energy and aerospace, the sales of American and European giants are roughly similar yet the Americans earn more. And Goldman Sachs has long been the media's whipping boy, but JPMorgan Chase is bigger in net revenue and net profit—though not profit margins.



Sources: Bloomberg; *The Economist*

Cable television

News you can lose

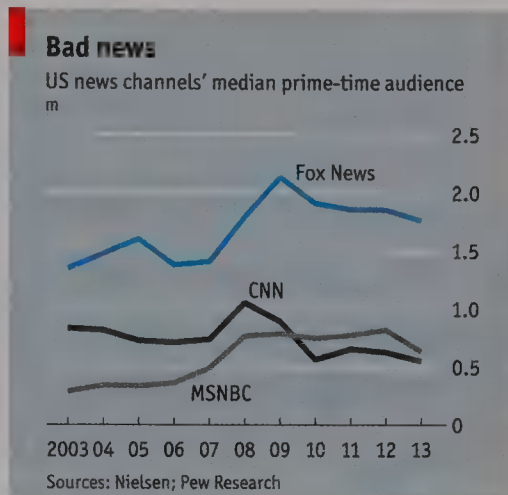
NEW YORK

CNN's transformation says a lot about what is working today in television

JEFF ZUCKER, boss of CNN Worldwide, a cable-news firm, likes to start his morning with a shot of numbers. Every weekday at 9am he confers with his teams in New York, Atlanta, Washington, DC, and other bureaus to discuss ratings and web traffic, and to decide what news to cover. On February 4th a story reconstructing the final day of Philip Seymour Hoffman, an actor who died of a heroin overdose (see obituary), boosted CNN's website. Mr Zucker wanted to "push it" on TV too. As producers pitch the stories they plan to cover, Mr Zucker pitches them his own, including more on Hillary Clinton's election prospects, how bad weather affects America's economy and whether drinking two fizzy drinks a day will actually kill you.

Previous bosses at the channel rarely attended morning news meetings, but Mr Zucker has been hands-on since January 2013, when he took over the role. However, he also believes that CNN cannot live by news alone. The cable channel, owned by Time Warner, a media conglomerate, has often performed poorly in the ratings compared with its politically partisan rivals in America—left-leaning MSNBC and conservative Fox News—unless big news is breaking. There is no glory in the role of unbiased "referee" between two partisan networks, Mr Zucker tells his staff. "Nobody goes to the game to see the ref."

Instead CNN is trying to lure viewers by



airing original films and television series that are either licensed or produced in-house. In October it showed "Blackfish", a splashy documentary about a trainer at a marine park who was killed by a whale. Last month Mr Zucker attended the Sundance film festival to show three films produced by CNN, and to buy the rights to air another, called "Dinosaur 13", about palaeontologists discovering a *Tyrannosaurus* skeleton. Next month "Chicagoland", a reality-TV show for political junkies, set in the windy city, will begin. A travel series in which Anthony Bourdain, a celebrity chef, travels to exotic places, called "Parts Unknown", has become one of CNN's most popular shows, and may have helped the channel to attract around 8m new viewers.

Unfortunately, CNN and other American cable-news channels continue to travel to unfamiliar and dark ratings terrain themselves. Last year median prime-time ratings for Fox News, CNN and MSNBC declined by between 6% and 24% (see chart). The picture is not much brighter for business-news networks, such as CNBC. There is a "ceiling" to how many people are getting their news from television today, says Amy Mitchell of the Pew Research Centre's Journalism Project. More people are turning to the internet.

CNN's transformation under Mr Zucker is an attempt to boost ratings that are well below their peak five years ago. Viewing figures for all channels that provide general information are static or in decline. Recently DirecTV, a satellite-TV provider, dropped the Weather Channel because people can find weather information easily elsewhere (such as on the Weather Channel's free website). Anyone who sits in on the morning meeting can tell that

news is Mr Zucker's passion. But what works today is entertainment.

Networks are now trying to distinguish themselves by airing more "event programming", such as the Olympics, that get couch potatoes to tune in to live television. They are also pouring resources into developing new shows that might attract a following and set them apart from other channels. Programming costs at American cable networks will rise by more than 9% this year, according to MoffettNathanson, a research firm (which employs Mr Zucker's brother-in-law). Mr Zucker's strategy at CNN differs from his reign as the boss of NBCUniversal, a big entertainment firm, where he spent less on new shows and focused on cutting costs at NBC, the broadcast network. But NBC's ratings flagged. Mr Zucker was reportedly fired after Comcast took control of NBCUniversal in 2010.

CNN's critics point to its weak ratings but it remains immensely profitable. Last year it made an estimated \$340m on revenues of \$1.1 billion, according to SNL Kagan, a research firm. (CNN International, its growing international division, is not captured in those numbers; nor is HLN, another struggling domestic news channel that needs an overhaul.) A large share of its revenues comes from fees that cable operators pay for the right to carry it. To keep profits rolling in CNN needs more viewers so it can charge more to pay-TV operators and attract more advertising.

This is particularly important as CNN's costs are also high. Its type of journalism is expensive; it probably has more news bureaus than MSNBC and Fox News combined. "We are in the produce business," says K.C. Estenson, who runs CNN.com. "Our news comes and goes so quickly." Frequent updates require constant attention and resources.

Cable-news channels are also experiencing what print newspapers started to see over a decade ago: people are abandoning them for the web, where advertising rates are much lower. In 2008 Mr Zucker, known for speaking his mind, worried about "trading analogue dollars for digital pennies". Since then online-advertising rates have improved. But internet economics are still less attractive, even for CNN.com, one of the most popular news websites in the world. As newspapers and online portals are making video content that they can sell advertising against, CNN also faces new competitors from the web.

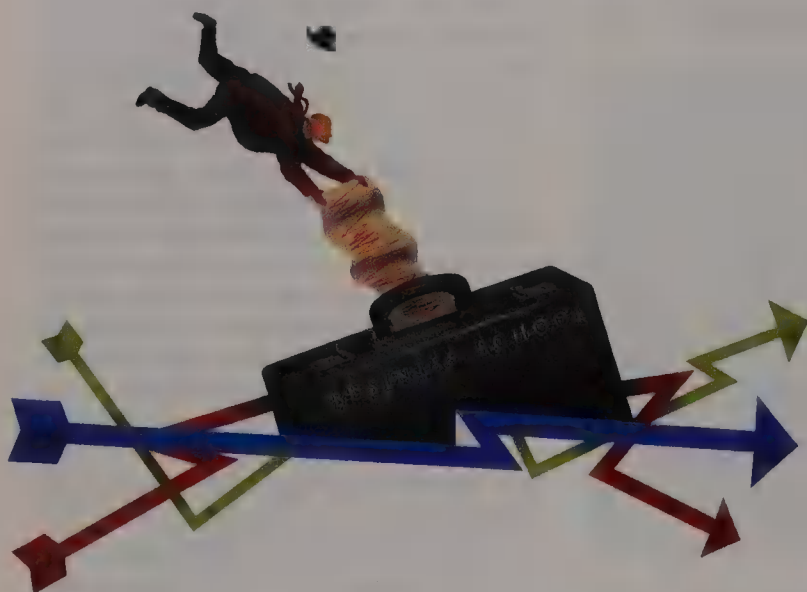
Meanwhile, some people at CNN want to see more dramatic investment in new programmes. In 2014 CNN will have around 70 hours of original films and shows: less than one-and-a-half hours a week, on average. "Are the changes going to be big enough for this new, brutal media climate we live in?" asks one CNN employee. More and more, news channels will depend on dinosaurs and killer whales. ■



Let them entertain you

Schumpeter | Those who can't, teach

Business schools are better at analysing disruptive innovation than at dealing with it



IN EVERY profession there are people who fail to practise what they preach: dentists with mouths full of rotten teeth, doctors who smoke 40 a day, accountants who forget to file their tax returns. But it is a rare profession where failure to obey its own rules is practically a condition of entry. Business schools exist to teach the value of management. They impart some basic principles—like setting clear goals and managing risk. They also teach how dangerous the business world has become. The most fashionable phrase today is “disruptive innovation”: professors solemnly warn people that entire industries face powerful new forces and that comfortable incumbents are at the mercy of swift-footed challengers. But when it comes to their own affairs, business schools flout their own rules and ignore their own warnings.

Opportunities abound. Demand for good management is spreading to the emerging world and to the public and voluntary sectors. The number of business schools worldwide has increased from a handful a century ago to 12,000 institutions that now deliver some form of business education—and first-class establishments are today found in Hyderabad and Shanghai as well as London and Boston. But at the same time they face huge risks. They lack barriers to entry to protect them from changes that are sweeping through the education industry. Good management could ensure that they thrive. But it is in scarce supply for two reasons.

The first is that business schools have been captured by the academic guild. In 1959 two inquiries sponsored by the Carnegie and Ford Foundations argued that business schools were little better than trade schools and urged them to be more academic. Now they are little more than flags of convenience for academics. The surest way to get a tenured post is to write a PhD (on a subject only loosely related to business) and publish a string of articles in respected journals. Tenured academics are untouchable and can block any change in a school. So far the best schools have been able to thrive despite the power of the academic guild. Academic star-power helps them to attract high-paying MBA students.

But even at the elite level the power of the academic guild can be a problem. Professors have too little incentive to focus on teaching: the best will perish unless they publish in the right journals. And they have too little incentive to produce usable re-

search. Oceans of papers with little genuine insight are published in obscure periodicals that no manager would ever dream of reading. Innovation is fuelled by bringing ideas from different spheres together. But academics specialise in dividing the world into tiny sub-disciplines. And when you get to the fat middle of the market these problems rise to the level of dysfunction.

The second problem is ■ herd mentality. Business schools suffer from a bad case of Harvard and Stanford envy: they dream of having fancy buildings and star professors. But the cost of participating in the arms race is going up—Columbia Business School is spending \$600m on a campus—and the supply of people who are willing to pay top-dollar for an MBA is falling. The number of people taking the GMAT, which regulates admission to many business schools, fell by 50,000 last year. The number of Americans taking the test has fallen particularly sharply, forcing mid-ranking schools to dig deeper into their admission pool or rely on recruiting Asians, who will increasingly have business schools of their own to choose from. The reason for the softening demand is that returns on investment are also falling. The Graduate Management Admission Council, which conducted ■ survey of graduates of American business schools, found that 8% of the class of 2012 did not have a job when they graduated.

The obvious solution for schools outside the top tier is to compete on cost or innovation. Though the average fee for an American MBA course has risen by a third over the past four years some schools, such as Cornell and Rochester, are offering shorter courses and others, including Maryland and UCLA, are forgoing the annual fee increase. Ashridge, near London, focuses on short courses for executives. But too many continue to stick their heads in the sand. Meanwhile, they face competition from companies with a monetary incentive to control costs and expand enrolment. The Career Education Corporation, an American firm, is assembling a portfolio of business-oriented institutions. Laureate Education has over 800,000 business students in 30 countries. Private schools such as these are directly challenging the faculty-dominated not-for-profit model, employing staff to teach rather than research and making it easier to combine study with work. And some consultancies and investment banks are running in-house mini-MBAs.

Mind your own business school

The result is a paradox: many of the people who run business schools are approaching the future in the most unbusinesslike manner. The mood at this year's meeting of deans in Gothenburg, Sweden, was a mixture of gloom and fatalism. They talked about academic inflation, image problems and the threat of MOOCs or massive open online courses (see Free exchange). But they showed little confidence in their own ability to grasp opportunities or combat threats.

The deans have few levers at their disposal to reorganise their schools or cut costs: more than 80% of their bills go on academic salaries. They also have few incentives to pull what levers they have: almost all of them are former academics who are appointed for ■ maximum of five years. Michael Porter of HBS once warned that the most dangerous place for a business is to be stuck in the middle without an obvious advantage of cost or quality. Over the next few years a striking number of business schools are going to discover just how right he was. ■



Turmoil in financial markets

Goldilocks and the bears

Investors have been forced to reassess their rosy view

EQUITY markets started 2014 in a buoyant mood, after 30% gains for American shares in the previous year. Investors seemed to believe that the worst of the financial crisis was at last over and that the global economy was returning to “Goldilocks” mode, with growth neither so strong as to cause inflation nor so weak as to squeeze profits, but “just right”.

However, markets have been hit by a classic one-two punch in the opening weeks of the year. First, emerging-market currencies came under pressure, with the Argentine peso and Turkish lira, among others, falling sharply and several countries opting to increase interest rates. To add to the concern, Chinese economic data showed signs of weakness, with the purchasing managers’ index for manufacturing dropping to 50.5 in January, its lowest level in six months.

The second sandbagging came from America, where the purchasing managers’ index for manufacturing slumped to 51.3 in January from 56.5 in the previous month. That was accompanied by a 3.1% decline in vehicle sales in January compared with a year earlier and followed a surprise 4.3% fall in durable-goods orders in December. The news prompted a 2.3% fall in the S&P 500 index on February 3rd. Most analysts had dismissed weak employment numbers for December as an aberration due to

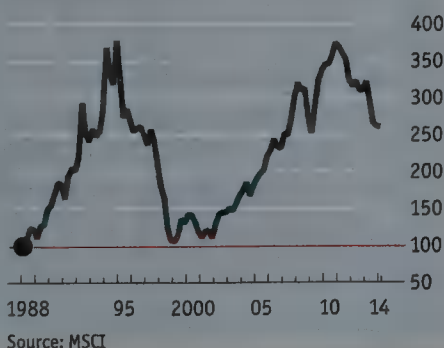
exceptionally cold winter weather, but the run of disappointing statistics seems to have stirred second thoughts. Payroll data for January, which were due to be released after *The Economist* had gone to press, may assuage or amplify these misgivings.

Underlying all this is a third potential worry. The Federal Reserve’s policy of “quantitative easing” (creating money to buy assets) is widely credited with propping up equity markets as well as depressing bond yields. Now that the Fed is “tapering”—that is, gradually reducing—its asset purchases, will the markets come under prolonged pressure?

As always, psychology plays a big role.

Pre-tapered

Emerging-market stockmarket performance relative to rich countries’
January 1st 1988=100



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The Fed is still buying \$65 billion of assets a month, a significant level of support. The “forward guidance” it is giving suggests that an increase in short-term interest rates is far from imminent. Nevertheless, if investors expect the eventual withdrawal of monetary stimulus to prompt a decline in markets, it makes sense for them to sell in advance so as to reduce their potential losses. Indeed, the strong returns achieved from stockmarkets in 2013 may be reinforcing this process; investors are happy to lock in their profits.

The profit-taking trend seems well under way in Japan, even though the Bank of Japan is expected to maintain monetary easing (see next story). The broadly based Topix index fell by 4.8% on February 4th, having risen by 51% last year.

Profit-taking is not really the problem in emerging equity markets, since they have been underperforming stockmarkets in the rich world for the past three years (see chart). The worst-hit countries in recent weeks have been those with specific problems: political turmoil (Ukraine), a wide current-account deficit and high inflation (Turkey) or simply poor economic policy (Argentina).

But Raghuram Rajan, a prominent economist who is now governor of India’s central bank, has raised a broader issue. In the wake of the financial crisis of 2007-08, capital flooded into emerging markets, in part because their economies lacked many of the problems seen in the developed world and in part because central banks in rich countries had slashed rates so far that investors went abroad in search of juicier returns. As this money flows back again, emerging-market currencies (including the Indian rupee) are coming under pressure. That presents the countries concerned ►►

▶ with a dilemma: let the exchange rate slide and risk inflation, or increase interest rates to defend the currency and risk a recession. "The US should worry about the effects of its policies on the rest of the world," Mr Rajan says.

Judging by the behaviour of markets in recent weeks, many investors have been consumed by the opposite concern: will the difficulties in emerging markets infect the developed world? Analysts at Macquarie, an investment bank, point out that five of the countries that have seen their currencies fall the most (Argentina, Brazil, India, Russia and Turkey) comprise 12% of the global economy. Around 18% of European corporate revenues derive from emerging markets, according to Goldman Sachs, and that rises to 24% for Britain and 31% for Switzerland.

About 15% of the profits of S&P 500 companies come from emerging markets. As yet, there is no sign of problems in corporate results. Bank of America Merrill Lynch estimates that, as is the custom, most American companies have beaten earnings forecasts for the fourth quarter. With 70% of companies in the S&P 500 having reported, earnings per share have risen at an annual rate of 7%.

But Wall Street does not have much margin for error. Profits are close to a post-war high as a proportion of GDP. Meanwhile, equities look expensive by two of the best long-term valuation measures, which are calculated in quite different ways. Price-equity ratios, which relate share prices to a ten-year average of profits, are now around 25, far above their long-term average of 16. Shares look equally expensive when measured against the cost of replacing companies' assets, a metric known as the q-ratio.

Bad news for equities has proved positive for government bonds, even though the Fed is buying fewer of them. The yield on ten-year Treasuries dropped from 3% at the start of the year to 2.59% on February 3rd, and yields on ten-year German bonds fell from 1.94% to 1.56% over the same period. Whereas sentiment on equities may have been overoptimistic at the end of 2013, it may have been too pessimistic about bonds; inflation is lower than it was a year ago in America, Britain and the euro area. The Economist's commodities index has dropped by 13.9% over the past year and copper, often seen as especially sensitive to economic conditions, is down by almost 15%.

The wobbles in financial markets so far this year can be explained as a timely reassessment of what had been an excessively rosy investor outlook. For the sell-off to turn into something more serious, it will probably need clearer evidence of a new economic slowdown, in either China or the developed world, or a significant hit to corporate profits. ■

Global monetary policy

Countervailing motion

TOKYO

The Fed may be "tapering" but central banks in Japan and Europe are still easing

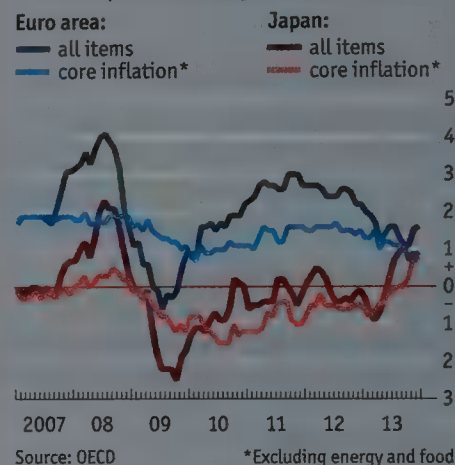
THOSE looking for someone to blame for the upheaval in financial markets tend to finger the Federal Reserve. By phasing out its scheme of suppressing interest rates through bond purchases, the theory runs, it prompted capital to stampede from emerging markets into the rich world in expectation of rising yields. Yet the Fed's shift to a less expansionary monetary policy is only half the story: central banks in the euro area and Japan, the world's second- and fourth-biggest economies (at market exchange rates), are still moving in the opposite direction.

In Japan, the government of Shinzo Abe is striving to exorcise the deflation that has haunted its economy for a decade and a half, in part through a bond-purchasing scheme on a par with America's. If Japan is confronting the ghost of deflation past, the euro zone is spooked by deflation yet to come. Preliminary figures show headline inflation falling to 0.7% in January, matching the October low that prompted the European Central Bank (ECB) to cut its main policy rate to 0.25%. The bank's council, which was meeting on February 6th as *The Economist* went to press, was facing pressure to loosen monetary policy again, either through a further rate cut or by providing more liquidity.

Last April the Bank of Japan (BOJ), under the freshly appointed Haruhiko Kuroda, started buying ¥7 trillion (\$70 billion)

Two-way street

Consumer prices, % change on a year earlier



of assets a month—close to the Fed's monthly purchases, then of \$85 billion but now \$65 billion, and a far greater sum relative to the size of the Japanese economy. The BOJ is widely assumed to be about to expand this "quantitative easing" (QE). So far, the results have been promising.

The yen, which had already started to depreciate in 2012, lurched down still further last year, causing corporate profits and the stockmarket to soar. The currency depreciation has in particular pushed up headline inflation, which reached 1.6% in December (see chart). But core inflation (ie, excluding energy and food) has also moved into positive territory and is rising at its fastest pace since 1998. Although many observers still doubt that the BOJ will hit its target of generating inflation of 2% by the spring of next year, that no longer looks implausible. Moreover, Mr Kuroda, echoing the euro-saving phrase of Mario Draghi, the boss of the ECB, has vowed to do "whatever it takes".

Mr Kuroda's no-holds-barred QE has become all the more important since one of the other main elements of Mr Abe's economic resuscitation plan—big supply-side reforms such as making it easier to sack permanent employees, and thus encourage hiring—is not making much headway. Indeed, with Kurodanomics now dominating Abenomics, the question preoccupying markets is how soon and how dramatically the BOJ will increase its QE. A spur to action may be the first of two scheduled increases in Japan's consumption tax, which is due to rise from 5% to 8% in April. The last time the unpopular tax was raised, in 1997, the convalescent econ-



Red rags to Kuroda

omy sickened again.

This time will be different, Mr Abe hopes, not least because his government will temper the contractionary effect with a temporary fiscal stimulus worth ¥5.5 trillion. The prime minister is also leaning on large firms to raise wages this spring in the annual *shunto* pay negotiation with unions. The need for higher wages was spelt out in official figures this week showing that earnings fell in real terms by 1.1% in the year to December. Mr Abe's tactics have had some success. Keidanren, a lobby for big business, said in mid-January that it was backing pay rises by its members for

the first time in six years. But small firms may not follow suit and the *shunto* round will not touch the ranks of low-paid, part-time and temporary workers upon whom Japanese firms increasingly depend.

Kurodanomics, meet Draghinomics

Mr Abe has other reasons to be nervous about raising the consumption tax. This year's turmoil in emerging markets evokes unpleasant memories of the Asian crisis of 1997-98, which curbed Japanese exports and exacerbated the ill-effects of the consumption-tax rise. As global investors seek refuge in financial havens, the yen has

started to appreciate again. That has cast a pall over the stockmarket: the Nikkei 225 fell by over 4% on February 4th, bringing its decline since the start of this year to 14%.

The difficulties facing Japan in trying to slough off deflation show why it is so important to try to avoid it in the first place. Mr Draghi has argued that the euro zone is not turning Japanese, but there are some worrying similarities. The single-currency area has for example been slow to deal with its lame banks. The asset-quality review and stress tests that will be carried out this year offer an opportunity to root out the bad loans and recapitalise the weak ►►

Buttonwood | A new world for bonds

Time to sweep away an artificial distinction

IMAGINE that the stockmarket was divided into two. The big investment banks—Goldman Sachs, Morgan Stanley and Bank of America Merrill Lynch—would create lists of the shares that they liked. These approved shares would be classed as IB, for investment-bank-approved, and would trade on a higher valuation (ie, lower yield) than equities they did not like, which would be lumped together in the BS, or bank-shunned, category. Some investors would be prevented from owning anything but the IB shares.

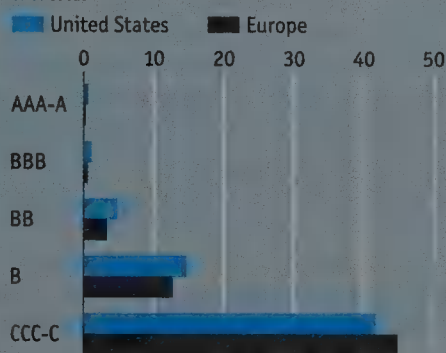
The idea sounds bizarre, but such an artificial distinction does exist in the bond markets, where the big ratings agencies class debt issues on a scale from AAA, the highest class, to D, for bonds in default. Bonds rated BBB- or higher are classified as investment grade (IG) whereas those rated BB+ or below are regarded as speculative, or more popularly, junk bonds. Some investors will not touch junk bonds at all; most bond funds focus on either IG bonds or junk.

But as Kevin Corrigan of Lombard Odier Investment Managers points out, this Manichean divide is rather odd. The difference between the BBB and BB categories is not that fundamental. Figures from Standard & Poor's, one of the big ratings agencies, show that, of American corporate bonds rated BBB, 1.1% are in default three years later; for those rated BB, the figure is 4.8%. By contrast, 14.7% of bonds rated B have stopped paying within three years and 41.7% of those rated C or below. The figures for European bonds are similar (see chart).

A degentrification has been taking place in the bond market. The aristocrats of bonds—issuers of AAA-rated debt—have virtually disappeared. There is no longer much of an advantage in being rated AAA: shareholders instead want com-

What's in a letter?

Bonds in default after three years by credit rating
% of total



Source: Lombard Odier

panies either to return the spare cash that might help earn them a high rating or to make their balance-sheets more "efficient" by borrowing more to take advantage of the tax deductibility of interest payments, thus jeopardising an exalted status.

Instead, most bonds are lumped together in the middle. Around 68% of European junk bonds are rated BB, while BBB bonds make up about 44% of the investment-grade category. Again, an artificial division between the two seems odd: surely the idea is to pick the most attractive bonds, whatever the category?

Another strange aspect of investing in bonds is that indices are weighted by the value of bonds outstanding; in other words, the most indebted companies have the biggest weight. When Verizon, an American telecoms giant, issued \$49 billion of debt last September, it automatically became a prominent fixture of corporate-bond indices.

Although this seems in keeping with the approach used for equity indices, it is fundamentally different. As George Cooper, a fund manager and author, describes it, "An equity benchmark is asset-weight-

ed, a bond benchmark is liability-weighted." It is like lending most of your money to your least responsible friend.

In 2010 Ramin Toloui of PIMCO, a fund-management group, calculated that government-bond indices weighted by GDP had outperformed those weighted by value over the previous 20 years (and with less volatility along the way). Mr Corrigan suggests the same approach can be followed for corporate-bond indices: the weighting in the index can be based on the industry's contribution to GDP rather than the debt in issue. Such an approach tends to reduce the weighting in banking and utilities compared with a liability-weighted benchmark.

The idea of alternative weightings for indices has been around for a while in the equity market, and is known in the jargon as "smart beta". It is based on two underlying hopes. First, a market-value-based weighting system involves a bigger exposure to shares that have risen in price and a smaller exposure when they have fallen—the equivalent of buying high and selling low. Alternative approaches may avoid this problem. Second, fund managers who outperform the index may do so by looking at other factors—for example, stocks that look cheap relative to their dividends or assets. A smart-beta approach can capture such factors without charging the high fees demanded by the industry.

It makes sense for such ideas to be extended to the bond market. As the rich world ages and more people depend on private pensions for retirement income, bond funds will become increasingly popular. But with bond yields low, charges will eat into investors' returns. Cheap ways of buying diversified portfolios of corporate bonds will be needed.

banks, but it is long overdue. The delay has contributed to a dearth of credit as undercapitalised banks retrench, which in turn has hindered growth.

With output in the euro zone still 3% lower than its pre-crisis peak of early 2008, it is hardly surprising that inflationary pressures are conspicuous by their absence. Core inflation in January was 0.8%, just a notch up from the record low of 0.7% at the end of 2013.

The ECB's main hope is that the weak recovery that started last spring will put down deeper roots. That hope will be nourished by a report this week from Markit, a data-research firm, which showed manufacturing conditions at their most buoyant since mid-2011. Even so, the ECB's declared bias is to ease monetary policy.

In what remains a dollar-based international monetary system, emerging economies are undoubtedly affected most of all by what the Fed does. But the rich world's central banks are not conducting synchronised tightening; instead their monetary stances are diverging. Emerging markets may have benefited in particular from an era of cheap money and swelling liquidity—but that era is still far from over. ■

A legal hazard for Brazil's banks

The past is epilogue

A row over 25-year-old account adjustments unnerves Brazilian lenders

IN BRAZIL, Pedro Malan, a former finance minister, likes to say, “even the past is unpredictable.” The dictum has come to haunt Itaú Unibanco, the advisory board of which Mr Malan chairs. The bank, along with Banco do Brasil and Spain's Santander, awaits judgment by the supreme court over its actions a quarter of a century ago. Depositors claim the trio's subsidiaries took advantage of government efforts to quash hyperinflation to fleece owners of inflation-linked accounts. If the justices side with depositors, other lenders that offered similar instruments may also be on the hook. The bill could reach 150 billion reais (\$62 billion), according to the central bank.

The finance minister, Guido Mantega, and the central bank's governor, Alexandre Tombini, have signed an open letter warning that a defeat for the banks may starve the economy of credit. (So did all their living predecessors, regardless of political or economic persuasion.) Such a decision might also prompt Banco do Brasil and Caixa Econômica Federal, which are state-controlled and between them hold roughly half of all savings accounts, to seek

a government bail-out, denting Brazil's already fragile public finances.

Walter Faiad of the Consumer Protection Institute, an outfit involved with the savers' claims, argues that banks would lose closer to 15 billion reais, mainly because relatively few of their former depositors have the will and resources to go to court. Murilo Portugal, head of the Federation of Brazilian Banks (Febraban), which co-ordinates the industry's legal strategy, counters that between 2005 and 2013, as the 20-year statute of limitations drew near, banks received as many as 1.4m claims. And the court may interpret some pending class actions brought by public prosecutors as representing all of the tens of millions of Brazilians who held a savings account at the time.

Most of the cases revolve around four “stabilisation plans” enacted between 1987 and 1991. The failure in the early 1980s of conventional anti-inflationary measures such as spending cuts and interest-rate hikes led successive administrations to try unorthodox remedies: price and wage freezes, a string of new currencies, as well as abrupt changes to the way inflation-linked contracts and assets, including savings accounts, were adjusted for rising prices. None worked; inflation peaked at 6,821% in 1990. It was finally vanquished in 1994 by the Plan Real, a mix of conventional and unorthodox methods.

Savers' lawyers charge that in picking new inflation indices the banks breached existing contracts so as to profit at clients' expense. The bankers retort that they simply followed the law. The justices must decide whether citizens' right to have their contracts respected overrides the government's obligation to protect the currency.

Most legal scholars side with the banks. The laws detailing the economic plans were clear on when and how savings accounts were to be adjusted. Nor did the banks make a mint. A report commis-



Now they are queuing in court

sioned by Febraban found that their return on equity in years when a plan took effect was lower than the average for non-plan years. Mailson da Nóbrega, another former finance minister and author of a 1989 plan, notes that any gains by the banks from adjustments to their liabilities, such as deposits, would have been offset by similar tweaks to their assets, like housing loans. In fact, savers who did not close their accounts soon after the plans took effect ended up better off with the revised indices than if the old ones had been kept.

Yet the legal precedents are inconsistent. “It's a toss-up,” says João Castro Neves of Eurasia Group, a political-risk consultancy. He notes, however, that the court has often tempered decisions with far-reaching economic ramifications. It might, for instance, soften a bank-bruising ruling by limiting the period for which back interest must be paid. The bigger risk is to Brazil's credibility. It is hard to attract business to a country where uncertainty plagues not just the future, but the past as well. ■

Fees for hedge funds and private equity

Down to 1.4 and 17

The cost of investing in alternative assets is falling—slowly

PHOENICIAN merchants kept a fifth of the profits generated from their seafaring adventures and paid out the rest to their financiers. So claimed Alfred Winslow Jones, the manager of the first modern hedge fund, who in the 1950s used the (perhaps apocryphal) precedent to finagle a 20% cut from his backers. Other managers subsequently added a 2% annual charge on the assets they invested to arrive at the “2 and 20” formula that became the standard for both hedge funds and private equity. Investors, who have long suspected that this arrangement enriches managers faster than their clients, are belatedly fighting back. They have succeeded in amending the formula to something more like “1.4 and 17”, at least for newcomers to the business (see chart on next page).

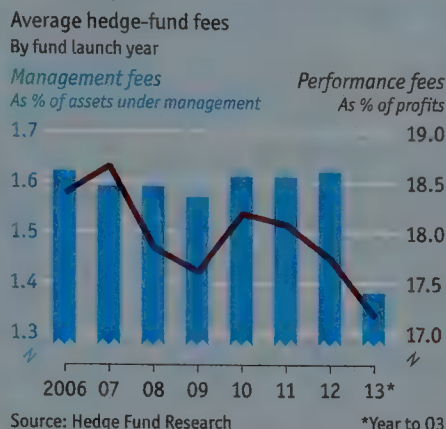
The primary reason for the erosion is the lousy returns that “alternative assets” have brought. Hedge funds as a whole have undershot just about any benchmark in recent years, not least buoyant stockmarkets. Many investors in private equity, for their part, are wondering if they are being adequately rewarded for tying up their cash for a decade or more. Since it is the net return that matters to investors, trimming fees improves a fund's perceived performance. The most successful ones—which often have their pick of investors—can still

charge well above “2 and 20”; for the rest, haggling has become common.

Another factor is the rush of new investors into alternatives, with pension funds, endowments and other institutions now outweighing rich individuals. The new clients are not only savvier; they also write bigger cheques so have more negotiating power. Sovereign-wealth funds, for example, some of which have begun conducting their own buy-outs in-house, simply will not pay “2 and 20”.

It is the 2% “management” fee that is under the most pressure. Such a hefty charge simply to keep the lights on used to be easily glossed over when copper-bottomed investments yielded three times that; it is harder to defend at a time of rock-bottom interest rates. As firms have ballooned in size the management fee has come to represent tens of millions of dollars—far more than the expenses the firms concerned actually incur, no matter how plush their offices. Some investors have taken to examining a fund’s running expenses to make sure its bosses are not getting rich merely

Farewell, Phoenicia



by showing up to work.

Performance fees have held up better, a sign that investors are still willing to pay for returns. This is particularly the case in private equity, where most funds have to meet a hurdle, typically set at 8%, below which the managers get nothing. Tweaks around how profits are calculated have also favoured investors: whereas private-

equity bosses once got a share of profits made on each investment, they are now more likely to get paid based on the performance of an entire decade-long fund. Not only does this delay their bonuses, it puts them at risk if bumper profits are wiped out by dud deals. Nor can they get rich by levying nebulous “monitoring fees” from the companies they buy and sell, once a way of extracting some extra pocket-money from their activities. If they do, they typically have to pass them on to their investors. Finally, the biggest backers often demand a right to “co-invest” on some deals, putting extra money to work without paying a penny more in fees.

Just four in ten hedge funds now charge a management fee of 2%, according to Preqin, a data provider. Some volunteer discounts for early backers, or to those investors willing to put up with additional barriers to withdrawing their money. A 17% payout is still nothing to sniff at, so few hedge-fund managers are likely to quit. It would take many years of further erosion to deter ambitious newcomers. ■

Share options

The law of unintended consequences

When bosses take the short view

EXECUTIVE share options were created in an attempt to align the interests of managers and shareholders. In the 1970s and 1980s many investors had feared that executives were more interested in empire-building (in order to justify higher salaries and lavish expenses) than in generating returns for shareholders. Granting options was supposed to allow executives to benefit alongside investors from rises in the share price.

In recent years, however, a new fear has arisen: that options have prompted executives to focus on the short-term performance of the shares rather than the long-term health of the business. A firm’s share price can often suffer a big fall if it misses its quarterly earnings target, something that would dent an executive’s pay-off from his options. Spending money on research and development (R&D), for example, may hit profits in the short term but is vital for a firm’s survival.

A new academic paper* examines this issue by focusing on the period when options “vest”—that is, when it becomes possible for executives to cash them in. It shows that spending on R&D does indeed decelerate slightly at vesting time, as do outlays on other things that bring results in the longer term, such as capital expenditure and advertising. It seems unlikely that the period of vesting would routinely come at times when the need



for such spending had fallen. The study also finds that firms are more likely to top their earnings targets in quarters when options are about to vest than at other times, suggesting that bosses are massaging profits up at the critical moment.

This may help to explain why corporate investment has been slow to pick up of late, even though many firms have big cash piles which are earning next-to-nothing in interest. The incentives for executives are still not working perfectly.

* “Equity vesting and managerial myopia”, by Alex Edmans, Vivian Fang and Katharina Lewellen, <http://ssrn.com/abstract=2270027>

Commodity prices

Fixing the fix

BRUSSELS

The European Union wants to change how commodity benchmarks are set

“THE oil price” has a comforting ring of clarity about it. But in reality many benchmark prices for oil and other commodities are merely estimates based on incomplete information from unregulated, illiquid markets. They rely at best on a seasoned reporter’s ability to interpret what his sources tell him about bids, offers and deals, and at worst on a gullible green-horn’s guesswork.

The standardised commodity contracts that trade transparently on busy exchanges do not always cater to the many different specifications required by industry. Other benchmarks—such as the evocative Light Louisiana Sweet, or the North Sea’s unsentimental Dated Brent—are the work of price-reporting agencies (PRAs), businesses which make money by gathering market information and selling it to subscribers. They have long been under fire from regulators, most recently the European Commission. A draft EU directive on commodity benchmarking seeks to regulate their work. The most stringent element is a proposed mandatory code of conduct for the price reporters and their sources.

The PRAs are furious. They claim the putative regulations will simply shift trading elsewhere, to New York or Dubai, say, with Chinese and Russian benchmarks replacing European ones. Reporting in Eu- ▶▶

rope will become impossible, they say, as information will dry up. Buyers and sellers are under no obligation to discuss their trades. The new regulatory burden will simply encourage them to keep mum, as some already do.

The PRAS support the more limited reforms advocated by the International Organisation of Securities Commissions (IOSCO), a club for financial-market regulators. On February 3rd Argus Media, one of the biggest PRAS, became the first to complete the sort of external audit recommended by IOSCO, of the way it produces benchmarks on coking coal and on various fuels for power plants.

Others worry about any proposal to, in effect, license journalism. Two European Parliament committees are chewing on this aspect of the draft rules. A vote is due on February 17th.

Criticisms of the existing system abound. Companies around the world trade commodities based on benchmark prices. These benchmarks also underpin lots of derivatives traded in financial markets, which firms can use to hedge their exposure to swings in commodity prices. A trader could, in theory, send false information to a PRA in order to move a price for another purpose, such as making money on a derivative trade.

While some regulators mull changes, others are acting. Another part of the European Commission last year raided BP, Royal Dutch Shell, Statoil (all oil firms) and Platts (the biggest PRA) in an investigation of possible market-rigging. An American regulator, the Commodity Futures Trading Commission, is investigating price-fixing by trading houses and oil companies. Many see similarities to scandals involving financial benchmarks such as LIBOR, which purported to track the price of loans between banks in London, but turns out to have been manipulated with gusto.

The commission says it is open to discussion on the PRAS' worries. But it disputes the idea that information will dry up if price-reporting is regulated. For the most important benchmarks, reporting trades could be obligatory, officials say. And whereas the current system, with its potential for abuse, exposes traders to "massive" liability, the commission's proposal brings clarity, they argue.

None of this deals with the fundamental problem: that many commodities, despite their name, are less fungible than stocks and bonds, and thus harder to trade on public exchanges. Oil, for one, is sold in irregular quantities, in hundreds of blends and grades, with widely varying delivery dates and destinations. Much of it is traded by big buyers and sellers on their own, private terms. Tidying that into an orderly market may be beyond the power of even the most zealous Eurocrat. Prosecuting market-riggers might work better. ■

Slums and social mobility

Down and out

Shanty-towns may be more of a trap than economists thought

DO SLUMS keep people in poverty or help them get out of it? It is an important question: about one-third of the urban population of developing countries (860m people) live in them. But with little data on slums and their inhabitants, it is a hard one to answer. Nonetheless a recent paper* from economists at the Massachusetts Institute of Technology (MIT) suggests that slums are often traps rather than springboards.

Economists have tended to accentuate the good side of slums. By offering a foothold for rural migrants seeking their fortune in cities, they are thought to foster upward mobility. Edward Glaeser, an economist at Harvard University, argues that the buzz of slums encourages entrepreneurship and hard work. One survey from Rio de Janeiro found that a majority of slum-dwellers interviewed in 1969 and found again in 2001 were no longer living in the favelas. That suggests many slum-dwellers had moved on to bigger and better things. Other research shows that about one-third of households in Nairobi's slums have established their own business.

Yet the MIT paper, which offers simple statistics about 138,000 slum households from around the world, suggests that slums are often an impediment to advancement. Poor hygiene, and the debilitating illnesses it propagates, is one curse. The majority of slum-dwellers in the MIT

sample have no private latrine; in one Mumbai slum, taps are shared by more than 100 people. According to the African Population and Health Research Centre hygiene is regularly worse in slums than in rural areas. In the slums of Tongi and Jessore in Bangladesh, 82% of respondents report that a member of their household has been sick in the past month.

Sickness, in turn, can spell economic disaster: days off work and expensive medical bills make it harder to save money and escape the slum. Research from an informal settlement in Dhaka shows that if sickness has prevented slum-dwellers from working for a spell, they are significantly more likely to admit that they are short of money or have recently begged.

Other factors make saving difficult. Many slum-dwellers rent their homes, with relatively few residents squatting. Given the proximity of slums to the city, rents are high. That eats into incomes. In a settlement in Dakar over 20% of people's income is devoted to rent. That is a hefty charge given the poverty of its inhabitants, especially so when compared with the norms in the countryside. In Kibera, a big slum in Nairobi, the authors of the MIT study show that rents represent one-third of non-food expenditure, whereas in rural areas in Kenya 90% of households pay no rent at all.

The question for economists is whether slums are just an expression of the wider problem of persistent poverty in developing countries or whether they themselves exert an effect on their inhabitants. Tracking the lives of individual slum-dwellers casts some light on that. The longer a family has lived in a Bangladeshi slum, for example, the lower its income. Similar results are found in Kibera, even though Kenya has seen rapid growth in living standards over the past decade.


Such statistics could well be biased: households that have improved their condition may no longer live in the slum, dragging down the average for those that stay behind. Yet the evidence suggests that people find it hard to get out. The average resident of Kibera has lived there for 16 years. Some 40% of Kolkata's slum-dwellers have lived in slums for more than three decades—an amazing proportion given the regular stream of arrivals.

The evidence is far from conclusive. Yet the paper suggests that economists are often too optimistic about the economic role played by shanty-towns. Even if slum life is better than rural poverty, there may be few grounds for celebration. Slums and poor people may not just co-exist; some people may be stuck in poverty because they live in slums. ■



High-rent accommodation in Kibera

*"The Economics of Slums in the Developing World" *Journal of Economic Perspectives* 2013, by B. Marx, T. Stoker and T. Suri.



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Past performance is no guarantee of future results. *Source: Morningstar. During 2013 (1/02/13 to 12/31/13), over 87.60% of "traditional bond fund" (as defined by all share classes of funds in the Morningstar Intermediate-Term Bond category) produced a negative return. **Source: Morningstar 12/31/13. The BlackRock Strategic Income Opportunities Fund, which lies in the Nontraditional Bond category, had a higher average annualized total return than the Morningstar Intermediate-Term Bond category (traditional bond funds) average and lower interest rate risk (as measured by effective duration) over the 1 year, 5 year and since inception periods. Excess return of a fund does not take into account the effect of fund expenses. A 1% return in a bond fund will be less than 1% if the fund charges a 1% expense ratio. A bond fund with a 1% expense ratio will return less than 1% if the fund charges a 1% expense ratio. The fund will not be able to meet its investment objectives.

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Free exchange | Massive open online forces

The rise of online instruction will upend the economics of higher education



UNIVERSITIES have not changed much since students first gathered in Oxford and Bologna in the 11th century. Teaching has been constrained by technology. Until recently a student needed to be in a lecture hall to hear the professor or around a table to debate with fellow students. Innovation is eliminating those constraints, however, and bringing sweeping change to higher education.

Online learning takes many forms. Wikipedia, a user-generated online encyclopedia, contains wonderfully detailed explanations. YouTube offers instruction on how to boil an egg as well as lectures on cosmology. Within many universities the online is displacing the offline. Professors publish course materials and videos of their lectures on the web. Students interact with each other and submit assignments by e-mail. Even those living on university campuses may nonetheless learn largely online, skipping lectures and reporting only for the final exam.

In America, bowing to the inevitable, universities have joined various startups in the rush to provide stand-alone instruction online, through Massive Open Online Courses, or MOOCs. Though much experimentation lies ahead, economics can shed light on how the market for higher education may change.

Two big forces underpin a university's costs. The first is the need for physical proximity. Adding students is expensive—they require more buildings and instructors—and so a university's marginal cost of production is high. That means that even in a competitive market, where price converges towards marginal cost, modern education is dear.

It is also hard to raise productivity. University lecturers can teach at most a few hundred students each semester—the maximum that can be squeezed into lecture halls and exam-marking rosters. Because it is so labour intensive higher education relies on large numbers of instructors paid relatively modest salaries.

MOOCs work completely differently. Alex Tabarrok, an economist at George Mason University and co-founder of an online-education site, Marginal Revolution University, reckons the most salient feature of the online course is its rock-bottom marginal cost: teaching additional students is virtually free. The fixed cost of creating an online course is relatively high, however. Getting started means putting together a curriculum, producing written

and recorded material to explain it, and creating an interactive site that facilitates discussion and feedback.

Having invested in the production of a course, a provider's incentive is to sell it to as many students as possible. After the initial cost is covered each additional unit sold is pure profit. A low price maximises registrations and profit. But as prices converge towards marginal cost, there will be little scope for undercutting the competition. Instead MOOCs are likely to compete on quality, Mr Tabarrok reckons. Higher production costs are a small price to pay to attract much greater numbers of students. Such markets often evolve into winner-take-all, "superstar" competitions. The best courses attract the most customers and profit handsomely as a result. In this respect online education may more closely resemble information industries such as film-making than service industries such as hair-cutting.

The market for textbooks already fits this description. New textbooks are costly to write and design but can be reproduced fairly cheaply. Not surprisingly, only four introductory economic texts account for half of the American market, according to Mr Tabarrok. Indeed, says Tyler Cowen, a co-founder of Marginal Revolution University, it is possible that textbook publishers are better equipped than universities to develop MOOCs profitably.

The market for instructors will also be transformed. The best teachers will be fabulously productive, reaching hundreds of thousands of students. There may therefore be far fewer of them, each compensated like superstars in the entertainment industry.

MOOCs' low marginal cost is responsible for some of the bad press they occasionally receive. Consumers risk little by signing up, so both registrations and drop-out rates are high. Yet that is not necessarily a reflection of poor quality. An analysis of over 1000 studies of online-course results conducted by America's Department of Education found that people who complete such courses do better on average than students in face-to-face instruction.

Ivory glowers

Caroline Hoxby, an economist at Stanford University, argues that MOOCs threaten different universities in different ways. Less selective institutions are close substitutes for MOOCs. Course content is often standardised and interaction with professors is limited in order to keep costs down. Students generally pay the cost of their education themselves and upfront, but drop-out rates are nonetheless high. MOOCs can provide a similar experience with more flexibility and at much less cost. Though some such institutions could prosper as portals for courses developed elsewhere, or by awarding degrees based in part on mastery of MOOCs, most are at serious risk of displacement.

Elite institutions face very different circumstances, Ms Hoxby reckons. They operate like venture-capital firms, offering subsidised, labour-intensive education to highly qualified students. They aim to cultivate a sense of belonging and gratitude in students in order to recoup their investment decades later in the form of donations from successful alumni.

Ironically, these universities may have threatened their own business model by embracing MOOCs. Online courses break the personal link between students and university and, if offered cheaply to outsiders, may make regular graduates feel more like chumps than the chosen few. For top schools, the best bet may simply be to preserve their exclusivity. ■



Gene therapy

Ingenuous

NEW YORK

Fixing a body's broken genes is becoming possible

IT SOUNDS like science fiction, and for years it seemed as though it was just that: fiction. But the idea of gene therapy—introducing copies of healthy genes into people who lack them, to treat disease—is at last looking as if it may become science fact.

The field got off to a bad start, with the widely reported death of an American liver patient in 1999. In 2003 some French children who were being treated with it for an immune-system problem called SCID developed leukaemia. Since then, though, things have improved. Indeed one procedure, for lipoprotein lipase deficiency (which causes high levels of blood fats, with all the problems those can bring), has been approved, in Europe, for clinical use.

The most recent success, announced last month in the *Lancet*, was of an experimental treatment for choroideremia, a type of blindness. This is caused by mutation of the gene for a protein called *REP1*. Without *REP1*, the eye's light receptors degenerate. Robert MacLaren of Oxford University used a virus to deliver working versions of the *REP1* gene to the most light-sensitive part of the retina. Five of the six participants in the trial duly experienced an improvement in their sensitivity to light. Two were so improved that they could read more letters than previously on a standard eye chart.

Dr MacLaren's work complements that of Albert Maguire and Jean Bennett at the University of Pennsylvania, who use gene

therapy to treat another eye disease, Leber's congenital amaurosis. A defective version of a gene called *RPE65* means that, in this condition, retinal cells are starved of vitamin A, which also causes blindness. Putting normal copies of *RPE65* into the retina leads, as with *REP1*, to greater light sensitivity and—sometimes—clearer vision.

Drs MacLaren, Maguire and Bennett all use adeno-associated viruses (a type not known to cause illness, and which does not much provoke the immune system) to carry their genetic payloads to the target. Luigi Naldini of the San Raffaele Telethon Institute for Gene Therapy, in Milan, employs a rather scarier vector—one derived from HIV, the virus that causes AIDS—because its life cycle involves it integrating its genes into its host cells' nuclei.

Last year Dr Naldini and his colleagues reported that, using their safely neutered version of HIV, they had inserted working copies of genes into blood stem cells which lack them, in order to treat metachromatic leukodystrophy (which damages nerves) and Wiskott-Aldrich syndrome (which harms the immune system and reduces blood's ability to clot). In both cases—though in only a handful of patients, for the diseases are rare—Dr Naldini's approach either prevented the disease or at least halted its progress.

The rarity of metachromatic leukodystrophy, Wiskott-Aldrich syndrome and many other diseases for which gene thera-

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py might be appropriate means a lot of the applications of this approach are narrow. But a different one—constructing tailored genes and using them to guide the immune system—may have wider application, specifically against cancer.

Michel Sadelain, of the Memorial Sloan-Kettering Cancer Centre, in New York, is one of those at the forefront of a method that works this way. It employs chimeric antigen receptor (CAR) cells, which are engineered versions of T-cells, the part of the immune system that kills body cells, including tumorous ones, which have become threats.

Dr Sadelain's trick is to take natural T-cells from patients (specifically, leukaemia and lymphoma patients) and add to them genes which turn those cells' attention to the tumour in question, causing them to seek out its cells and destroy them. He then returns the modified cells to the patient, where they multiply and attack.

The CAR pool

The extra genes in CAR cells are derived in part from monoclonal-antibody genes. These have, in turn, been selected for their affinity to the target tumour. Because CAR cells multiply in the body this is, as Dr Sadelain puts it, like creating a living drug.

Last year Dr Sadelain's team, and also another group led by Carl June at the University of Pennsylvania, published results showing the promise of CAR cells in treating people with acute lymphoblastic leukaemia. Dr Sadelain's paper showed that they caused complete remission in three of five adult patients; Dr June's, that they eradicated the cancer from two children. And, at a meeting of the American Society of Hematology held in December, both researchers reported further successes.

There is, moreover, one further technique that might bring gene therapy into ►►

► the mainstream. Current approaches work by adding genes to affected cells. But it may be possible to modify those cells' existing, broken genes, using a method called CRISPR-Cas9 editing, a process that takes advantage of a natural antiviral system which chops up genetic material.

CRISPR-Cas9 editing is specific to particular sequences of genetic letters, and can thus be tweaked to do a researcher's bidding. In a recent edition of *Cell*, Sha Jiahao of Nanjing Medical University showed how to use it to execute the reverse of gene therapy—creating genetic problems, rather than solving them—in monkeys. His aim was to produce model organisms that might help understanding of diseases in human beings (though making such models out of monkeys is controversial). But the technique might eventually be employed to do running repairs on damaged DNA in people.

That, if it ever happens, is a long way off. In the meantime, the promise of gene therapy can be seen in the fact that it is attracting lawyers. The University of Pennsylvania has licensed its CAR technology to Novartis, a Swiss drugs firm. The pair of them are now fending off a lawsuit brought by competitors including Juno Therapeutics, the creation of three research centres of which Memorial Sloan-Kettering is one. For patients, that suggests gene therapy really is something worth fighting over. ■

Athletic enhancement

Breathe it in

An obscure gas improves athletes' performance

XENON is one of the shyest members of the periodic table of the elements. Chemically, it is almost inert, and physically, it makes up only 0.000009% of the atmosphere, so it is not surprising that it was among the last of the naturally occurring elements to be identified, in 1898. Biologically, however, it is not shy at all. In some countries, notably Russia, it is used as an anaesthetic. It is also known to protect body tissues from the effects of low temperatures, lack of oxygen and even physical trauma. In particular, it increases levels of erythropoietin, also known as EPO, a hormone that encourages the formation of red blood cells.

Xenon's protective and EPO-boosting properties mean it is being investigated as a treatment for babies whose brains have accidentally been starved of oxygen during birth, and of adults who have had heart attacks. But it is also, in Russia, being used

as a way to improve athletic performance.

Xenon works its magic by activating production of a protein called Hif-1 alpha. This acts as a transcription factor: a chemical switch that turns on production of a variety of other proteins, one of which is EPO. Artificially raising levels of EPO, by injecting synthetic versions of the hormone or by taking so-called Hif stabilisers (drugs that discourage the breakdown of Hif-1 alpha), is illegal under the rules of the World Anti-Doping Agency (WADA). Other methods of boosting the hormone, however, are permissible—and that fact has not gone unnoticed by the Russian sports authorities. Athletes are allowed to live or train at altitude, or sleep in a low-oxygen tent, in order to stimulate red-cell production. If xenon treatment is merely replicating low-oxygen environments by replacing oxygen with xenon, then its use to enhance athletic performance is permissible.

The use of xenon by athletes certainly has government blessing. A document produced in 2010 by the State Research Institute of the Ministry of Defence sets out guidelines for the administration of the gas to athletes. It advises using it before competitions to correct listlessness and sleep disruption, and afterwards to improve physical recovery. The recommended dose is a 50:50 mixture of xenon and oxygen, inhaled for a few minutes, ideally before going to bed. The gas's action, the manual states, continues for 48-72 hours, so repeating every few days is a good idea. And for last-minute jitters, a quick hit an hour before the starting gun can help.

The benefits, the manual suggests, include increasing heart and lung capacity, preventing muscle fatigue, boosting testosterone and improving an athlete's mood. Similar benefits have been noted in papers in Russian scientific journals, and in conference presentations describing tests of xenon on mountain climbers, paddlers, soldiers and pilots.

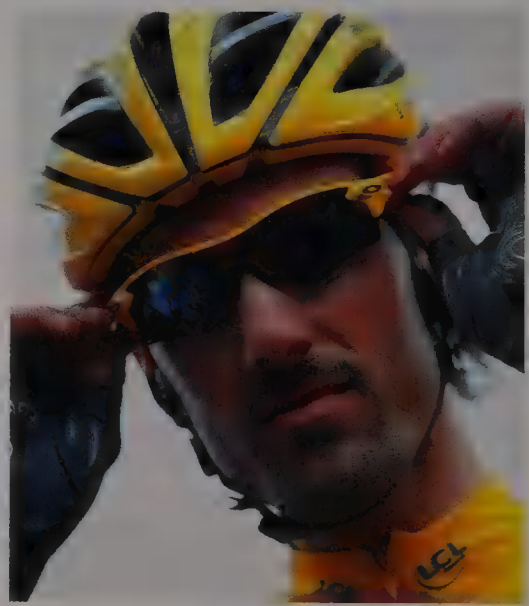
And the gas appears to have been used in past Olympics. The website of Atom Medical Centre, a Russian medical-xenon producer, cites national honours the company received for its efforts in preparing athletes for the 2004 summer Olympics and the 2006 winter games.

Something the published Russian reports do not go into, however, are measurements of EPO or Hif-1 alpha. Yet animal studies elsewhere have demonstrated xenon's dramatic effects on both. One such, carried out in 2009 by Mervyn Maze at Imperial College, London, found that exposing mice to a mixture of 70% xenon and 30% oxygen for two hours more than doubled the animals' EPO levels a day later. Another, by Xiaoqiang Ding of Fudan University in Shanghai, found that Hif-1 alpha levels in mice stayed high for up to 48 hours after treatment. By contrast, mice put in a low-oxygen enclosure saw an EPO in-

crease that lasted less than two hours.

Similar physiological effects may take place in people. In healthy adults, two hours in a low-oxygen chamber raises EPO levels by 50%, and the effect disappears (as in mice) within a few hours. The Russian manual indicates, by contrast, that xenon's benefits last for days—as might be expected if they were caused by the sort of Hif-1 alpha response seen in mice.

Whether xenon treatment will pass muster if and when WADA scrutinises it remains to be seen—and will no doubt depend on the finer points of the gas's biological action, many of which are still muddy. In the meantime, sports trainers around the world might be tempted to follow Russia's example, and reap xenon's benefits before the regulators catch up. ■



Sexual selection

Hot wheels

A new study suggests a link between cyclists' looks and their performance

IT IS unfair, but true, that beautiful people are more successful than ugly ones. Data indicate that this rule applies in both business and politics—and biological theory suggests the underlying reason is that beauty is an indicator of good genes and good health. How that reason translates into success, though, is more questionable. It could be that the pretty and handsome get a helping hand from their colleagues, bosses (and, in the case of politicians, voters) which is denied to the plain and the unseemly. Or it could be that beautiful people's underlying qualities mean they really are better, on average, at doing things.

One way to disentangle these explanations is to look at a field of endeavour which is about as close as it is possible to ►►

get to a true meritocracy: professional sport. Though favouritism here might put you in the team, it will never land you on the winner's podium. Erik Postma, of the University of Zurich, has therefore done just that, using long-distance cycling as his example. His results, just published in *Biology Letters*, suggest that good looks really do reflect underlying fitness, in both the athletic and the biological senses.

Dr Postma recruited 816 volunteers (72% women; 28% men) as judges in a beauty competition. He also assembled a collection of 80 mugshots of participants in the 2012 Tour de France. He showed the pictures, in two groups of 40, to each volunteer, and asked her or him to rate them on a scale of one to five for attractiveness, likeability and masculinity. Volunteers were also asked to note, in each case, if they recognised a rider. If they did, their rating of that individual was discounted. (This happened in 282 of the 32,468 attractiveness ratings made.)

Both sexes agreed on who was good-looking and who was not, though women tended to give those at the top of the list higher marks than men did—especially if the women in question were undergoing natural menstrual cycles. (Women on the pill gave assessments closer to those of men.) Overall, on the five-point scale Dr Postma used, the top 10% of cyclists in the race were reckoned 25% more attractive than the bottom 10%.

Attractiveness turned out to have no link with likeability—in as much as that could be assessed from a picture. (Dr Postma included this category in order to try to steer volunteers away from rating cyclists as attractive merely because they were smiling for the camera, which some did and some did not.) Likeable cyclists were not more likely to be winners. Nor were those rated as more masculine. Only attractiveness showed the correlation.

Athletic training, of course, does itself increase physical attractiveness. But given that everyone competing in the Tour de France is trained to the limit, that variable is irrelevant. Remaining differences in attractiveness are most unlikely to reflect that some have trained harder than others.

Dr Postma's study does not rule out the role of favouritism in other fields of endeavour. But it does support the idea that at least in areas where physical effort is important, and for men, good looks are a reasonable predictor of outcome. Whether a related study using female cyclists would show a similar correlation between performance and attractiveness remains, according to Dr Postma, "in need of investigation". And this year's tour might provide him with the relevant data, for the race's organisers have just announced that, for the first time (and for one day only, as they race to the finish line in Paris) women will be allowed to compete alongside men. ■

Bionics

Once more, with feeling

An artificial hand that provides sensations to its user

ONE of the few upsides of war is that it often gives technology a boost. A notable beneficiary of this is the science of prosthetic limbs. The various conflicts of the past decade have produced a steady stream of soldiers returning with missing arms and legs, and spurred efforts to improve mechanical replacements for them.

As a result, modern prosthetic limbs can move around much more fluidly, and sport features such as individually controllable fingers. Artificial arms and legs have been developed that are attached to the severed nerves in an amputee's stump, and can thus be moved the way natural limbs are, simply by thinking about it. Scientists have even made some progress in the other direction—transmitting sensory information from a prosthesis back to a user's brain.

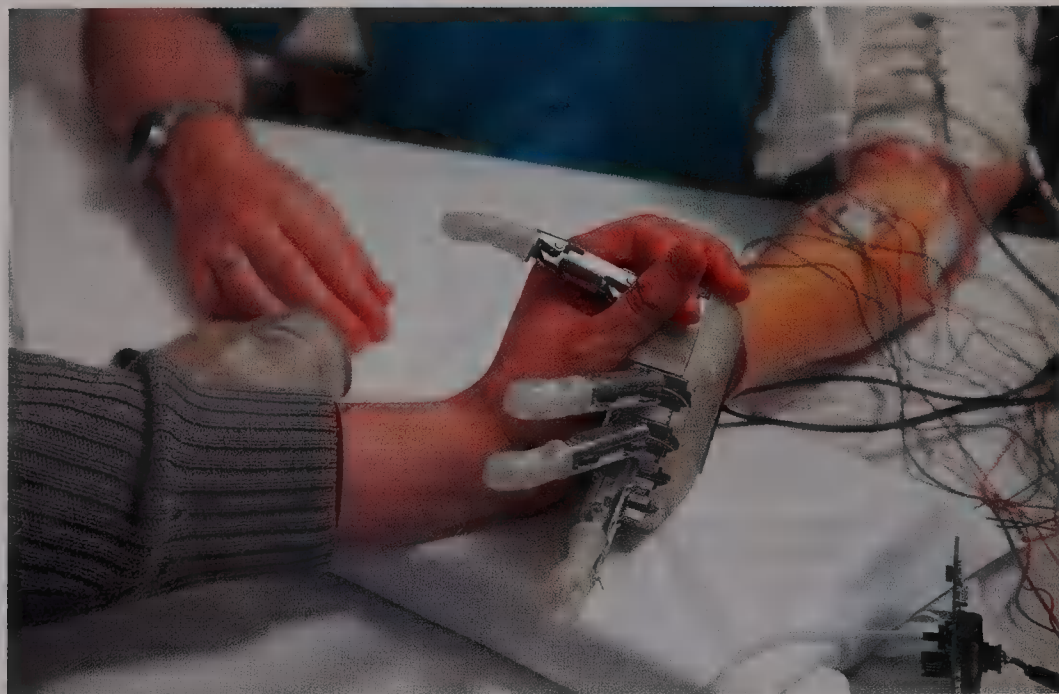
The most impressive example so far is described in a paper in *Science Translational Medicine*, in which Stanisa Raspopovic of the BioRobotics Institute at the Scuola Superiore Sant'Anna, in Pisa, and his colleagues explain how they built an artificial hand that can transmit the sensation of touch back to its user's brain. After a series of laboratory tests, they report that their volunteer—Dennis Aabo Sorensen, a 36-year-old Dane who lost his hand nine years previously—was able to use that feedback to accomplish the sort of delicate tasks that wearers of artificial limbs often struggle with.

Dr Raspopovic used a prosthetic hand with built-in pressure sensors. It was hooked up to Mr Sorensen's nervous system through electrodes implanted in his arm in places where they were able to stimulate the ulnar and median nerves, which between them innervate much of an ordinary hand. The readouts from the hand's sensors were processed by a computer, which then fed tiny jolts of electricity into the electrodes.

After a bit of calibration, Mr Sorensen reported feeling a sensation of touch in the thumb, index finger and little finger of his newly installed hand. That allowed him to do things most wearers of prosthetic hands cannot, such as easily picking up delicate objects without crushing them. The wearer of a more old-fashioned hand would need to do this slowly and by eye, and even then might fail.

Mr Sorensen, by contrast, could do it blindfolded and wearing ear muffs. In more than 700 trials he was able to use the sensory information from his new hand to calibrate his grip to a range of tasks. In one, in which he had gradually to tighten and then loosen his grip, the bionic hand performed almost as well on the tightening stage as his other, biological hand (its performance was less impressive when he was loosening his grip). And although he was receiving information from only three parts of it, that was enough to let him tell the difference by feel alone between a lump of wood, a stack of plastic cups and a pack of cotton balls.

To owners of biological hands, this level of feedback may seem a bit crude. But that says as much about the elegance and sophistication of the flesh-and-blood version as it does about the limitations of its mechanical replacement. And, given the pace at which the field is moving, the technology is likely to get better—fast. ■



Welcome my son, welcome to the machine



Foreign fiction

Love in the time of killing

A fine novel of the Spanish civil war at last translated into English

ALMOST 80 years after it began, the Spanish civil war still exerts a pull. Each year a new crop of books is published, many sustaining the heroic anti-fascist myth of militiamen and the International Brigades defending the cause of democracy and the Spanish republic against Francisco Franco's brutal army, backed by Hitler and Mussolini. But the conflict, as Ignacio Abel, the protagonist of "In the Night of Time", remarks, "is so complicated nobody wants to hear it."

It is the uncomfortable truth of Spain's descent into collective madness and slaughter in the summer of 1936 that Antonio Muñoz Molina seeks to uncover in this sweeping, magisterial novel that was first published five years ago and has only just been translated into English. "In the Night of Time" is a story of conflict between reason and passion, and of multiple betrayals, some more or less voluntary, some unavoidable. It comes with excruciating moral dilemmas attached.

Abel is an architect hired by the republic to design and build a university city in the pine groves that fringe Madrid's north-western outskirts. Born in poverty, the son of a construction foreman and a caretaker, he is a moderate socialist who won a scholarship to study at the Bauhaus in Weimar Germany. He applies his energies to his work and tolerates a loveless marriage to Adela, the decent daughter of well-off conservative Catholic parents and sister of a

In the Night of Time. By Antonio Muñoz Molina. Translated by Edith Grossman. Houghton Mifflin Harcourt; 641 pages; \$30

Falangist idler. Then in October 1935 he falls passionately in love with Judith Biely, a young American who has come to Madrid to study Spanish literature and culture.

Abel's love affair and Spain's political conflict run in parallel and meet in tragedy. Abel underestimates both women: Adela discovers his duplicity and Judith breaks off the affair. As political confrontation descends into war and revolution, Abel finds himself cut off from his family by the fighting. The university city is the scene of nightly executions by rival anarchist and communist death squads while refugees from the fascist advance "lit their fires and cooked their pots of food in the half-completed lobbies".

After three months of terror, Abel escapes to America, where he has been offered a commission to design a university library in upstate New York, and where he hopes to find Judith. Haunted by remorse and guilt, he feels he has betrayed not just his family (his children will now grow up "in clerical darkness"), but also his country. And he has been unable to save from the death squads one of his few friends, Professor Rossman. A stateless German architect reduced to selling pens in cafés, Rossman has seen both Nazi Germany and the

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Soviet Union. He is a bearer of truths that few in republican Madrid want to hear.

Abel's dilemma is that of a man who realises that the cause of human progress in which he believed, symbolised in the unfinished university city, has been perverted by the left's murderous Utopias as well as by the right's killing machine. A man whose vocation is to construct is appalled by how easy and instantaneous destruction can be.

His solution—escape—was chosen by other Spanish intellectuals. Some play cameo roles in the novel; only Juan Negrín, who would become the republic's prime minister, is portrayed with sympathy, an energetic man of common decency. Disconcertingly, the author himself pops up occasionally as an omniscient narrator, as if to underline that this is a novel of history rather than an historical novel.

Mr Muñoz Molina, who lives both in Madrid and New York, has mined archives to create an astonishingly vivid narrative that unfolds with hypnotic intensity by means of the constant interweaving of time and memory. He wants to pinpoint exactly how it was that Spain descended into slaughter and tragedy, and approves of George Orwell's observation that "to see what is in front of one's nose needs a constant struggle". His prose, illuminated by precise observation, has been well translated (though not flawlessly) by Edith Grossman. However, the publishers have surreptitiously abridged the Spanish original. Casual checks reveal that some passages are missing, of which, surprisingly, they make no acknowledgment.

"In the Night of Time" is Tolstoyan in its scale, emotional intensity and intellectual honesty. Its author, one of Spain's leading writers, has been unjustly ignored in the English-speaking world. With this book, he should get the acclaim he deserves. ■

The making of Iraq

Man of the moment

Faisal I of Iraq. By Ali A. Allawi. Yale University Press; 634 pages; \$40 and £30

HISTORY has not been kind to King Faisal I of Iraq. The received view is that he was a failure, since the British-backed monarchy he helped to establish was swept away by a military coup in 1958. Some Arab nationalists have gone further, branding him a traitor to their cause and a slave to the imperialists. Both judgments are rejected in an impressive biography by an Iraqi scholar, Ali Allawi, who served as the country's finance minister after the overthrow of Saddam Hussein in 2003.

Faisal entered history with the Arab revolt of 1916, made famous by Lawrence of Arabia. He had been born in western Arabia to the Hashemite family, which claimed descent from the Prophet. The region was then under Ottoman rule, and it was at the Ottoman court in Istanbul that Faisal had his first taste of politics and intrigue. But when the Turks sided with Germany in the first world war, the Hashemites took the fateful decision to ally themselves with Britain. Lured by the promise of Arab independence, they raised an army of 6,000 tribesmen to fight the Turks in two years of tough desert warfare.

The revolt established the Hashemites as a loyal ally just as the post-war Middle East was beginning to be carved up into British and French zones. In 1918 Faisal made a triumphal entry into the Syrian capital, Damascus, and for a brief heady moment Arab independence seemed something more than a mirage. But France would have none of it, and her allies were not ready to back Arab demands against French opposition. Faisal was caught, in Mr Allawi's words, between "French ambitions, British ambiguities and American dithering". When, defiantly, a congress of nationalists declared Syria independent, with Faisal as its king, the French crushed a small, poorly armed Arab force and ejected him from the country.

Faisal's career might have ended then and there. But British officials concocted a role for the Hashemites in two of the new states emerging under Britain's influence. They chose Faisal to rule Iraq, and his brother Abdullah to rule what became Jordan. Thus began the principal drama of Faisal's career. When he arrived in Iraq in 1921, he did so as the scion of an illustrious family and a hero of the Arab revolt. But he was not Iraqi, and the Iraqis were not sure what to make of him. The notion of foreign rule was anathema to them, and indeed to Faisal, who was determined to



Faisal the Fair

throw off the British yoke as quickly as possible.

Friction became inevitable. Barely a year after his coronation, after a row with the British high commissioner, Sir Percy Cox, Faisal came close to losing his throne. Tensions continued with Cox's successor, Sir Henry Dobbs, who in a letter to his wife described the king as "puerile and petulant" and questioned his fitness to rule. A decade later, in 1932, Britain at last gave Iraq its independence. Faisal died, exhausted and in ill health, the next year. To many he was a tragic figure.

But Mr Allawi sees him as a statesman and a nation-builder. He argues that Faisal (not Cox nor his colleague Gertrude Bell) was the real maker of modern Iraq. Through his skilful use of Arabic as well as British sources, he portrays Faisal as a convincing multi-dimensional figure. He was a man of charm and intelligence, but highly strung and subject to abrupt mood swings. To his doctors' frustration, he was a workaholic and a compulsive chain-smoker. As Mr Allawi concedes, he became more autocratic as he remained in power.

Yet Faisal had a humane vision for a modern and tolerant Iraq. He abhorred sectarianism—to this day, the poison in the Iraqi bloodstream—and did his utmost to reach out to the country's Shia majority, which resented rule by a Sunni Arab elite. He championed a more measured and pragmatic nationalism than the "strident, volatile and angry" kind exemplified by those who came after him.

Mr Allawi's book would have benefited from more thorough editing and proof-reading. The decision to open the narrative with Faisal's death and funeral gives it a good beginning but deprives it of a strong ending. These are minor complaints. This is the fullest portrait yet of a fascinating figure who played a significant role in the making of the modern Middle East. ■

Big data and society

The measure of man

Social Physics: How Good Ideas Spread—The Lessons from ■ New Science. By Alex Pentland. Penguin Press; 300 pages; \$27.95

PHYSICS is the study of matter. Its modern counterpart could be called "social physics", argues Alex Pentland of the Massachusetts Institute of Technology. The invention of the microscope and the telescope let scientists unlock the mysteries of the universe. The new abundance of data in society—GPS co-ordinates, credit-card transactions and phone records, which he calls "digital breadcrumbs"—allow people to improve their knowledge of how humans interact and how ideas come to spread.

By cleverly processing such "big data", it is possible to identify patterns of behaviour, just as scientists once worked out the laws of the physical world. Understanding social physics, he asserts, lets people "tune" social networks and obtain the results they want, just as radio engineers can tune a receiver to a desired frequency. This allows certain aspects of human life—from how companies operate to how cities work—to be "re-engineered" to make them more efficient.

These are grand claims. Mr Pentland, a pioneer in adding data-driven methods to the social sciences, backs them up with numerous examples from his research. For example, by controlling the spread of ideas, he improved the performance of a group of currency traders. In 2011 he analysed around 10m transactions from 1.6m users of eToro, a financial-trading site that lets people communicate and copy other people's trades. He found that traders who were isolated from others or over-connected did worse than those who struck a balance. The former group was deprived of information and the latter became stuck in an echo chamber. By using subtle incentives to get the loners to interact more and the social butterflies to reduce their information intake, he was able to double the profitability of the group.

"Social Physics" is filled with rich findings about what makes people tick. Using millions of data points measured over a long period of time in real settings, which Mr Pentland calls "living laboratories", the author has monitored human behaviour on an unprecedented scale. Through it, for example, he has discovered that people change how they behave in measurable ways when they fall ill. By tracking mobility and call patterns, researchers were able to tell that someone was coming down with flu before they knew it themselves. ►►

► In another case, the group tapped a wealth of mobile-phone data from Côte d'Ivoire to track where commuters began and ended their journeys on public transport. The researchers discovered that with a minor tweak to the system, the average commuting time in Abidjan, the largest city, could be reduced by 10%.

Often the examples underscore the importance of social ties. One study in the Swiss town of Poschiavo found that local

householders were more likely to use energy-saving schemes if they offered gift points to the householders' neighbours instead of to the householders themselves.

From studies such as this Mr Pentland believes that a larger truth emerges. Economic and political systems, based on individual action and rational choice, overlook the influence of social ties. Institutions should be redesigned around social physics, he says. For instance, to

improve health-care, anonymous medical records could be used to show what treatments work best. Mr Pentland's research also offers lessons for policymakers and business people. He advances a new way to protect privacy by creating something of a property right for personal information. People would in most cases control what personal data were collected, how they are used, and with whom they are shared, treating their personal data as assets, as they do money in a bank.

Yet he is less convincing when he strays from his research to make broader points about politics and economics. He reduces too much of the world's complexity to something to be solved by data, when they are just part of the solution. His enthusiasm for a world run by datacrats rings of a zealotry that could easily go awry. Still, "Social Physics" is a fascinating look at a new field by one of its principal geeks. ■

Tribal art

Masks and magic

BRUSSELS

The growing backlash against the trade in tribal art

EARLIER this year Giuseppe Favaro, a Venetian-born dealer, was arrested in central Africa for trying to send human remains from Burundi to Thailand; he was found in possession of over 40 Congolese skulls. Governments everywhere have been cracking down on the trade and display of sensitive tribal pieces, artwork made using human remains and human remains themselves. This is affecting the goods on sale and the prices they fetch, but not demand, which is fuelled by specialist collectors and high-end interior designers.

Tribal art began gaining recognition in the late 19th century when exhibitions, such as MOMA's "Africa Negro Art" show, new ethnographic museums, such as the Palais du Trocadéro in Paris, and the enthusiasm of modernist artists like Pablo Picasso gave the West a taste for the exotic. But growing cultural sensitivity is restricting the market. Museums are increasingly required to return cultural

items to the descendants or tribe they belong to. Last year the German Museums Association toughened its ethical guidelines concerning human remains. In the same week the Charité Hospital in Berlin returned body parts of more than 30 individuals to Australia and tribes originating from the Torres Strait. Australia, New Zealand and countries in Central and South America are also demanding the return of sensitive art work from dealers and auction houses directly.

Other areas of tribal art are more resilient. Russian and Chinese collectors are now interested; at one Sotheby's sale last year there were over 40 new buyers. Prices are going up as important pieces become scarcer. At the auction of Jan Krugier's private collection at Christie's in New York in November 2013 a curvilinear Baule mask from the Côte d'Ivoire fetched \$1.4m, well above the top estimate of \$800,000 (it once belonged to Picasso).

Brussels, as a result of Belgium's colonisation of the Congo, is a centre for the tribal art market. At the recent Brussels Antiques and Fine Art Fair, the principal tribal-art exhibitors were out in force: Galerie Mermoz, a Paris-based specialist in pre-Columbian art; Serge Schoffel; Didier Claes, who deals in art from Congo, his birthplace, and Gabon; and Galerie Jacques Germain.

At Mermoz two tribal masks made between 100BC and 250AD by the Alamo tribe of north-western Argentina were imposingly spotlighted at the back of the stand (pictured). Their smooth, grey-quartz faces were punctuated with a sloping rudder of a nose and five holes: two for the eyes, one for a mouth puckered in confusion, and two at the sides to allow the masks to be tied around the head. They were priced at €100,000 (\$135,174) each. By midday on the opening day of the fair, one dealer said he had sold nearly three-quarters of his stock. Perhaps sensitivity only goes so far.

Fiction and software

Multilingual

Geek Sublime: Writing Fiction, Coding Software. By Vikram Chandra. *Faber & Faber*; 258 pages; £14.99. To be published in America by Gray Wolf Press in September; \$16

SOFTWARE programmers like to think of their work as art. Paul Graham, a programmer and Silicon Valley investor, wrote in 2003 that "of all the different types of people I've known, hackers and painters are among the most alike."

For geeks this is a seductive conceit. There is more to programming, they say, than simply telling a computer what to do. Effective code can also be elegant, even beautiful. In making something out of nothing, it stands shoulder to shoulder with art. But who is to judge? Few programmers are actually artists. Fewer artists can code. Vikram Chandra, an Indian author who made money as a programmer in America while he was writing his first book, takes on the challenge with "Geek Sublime". The result is partly aesthetic analysis, partly an investigation of linguistic theory, partly a history of programming—and an entirely original work.

Although he has long since given up programming for profit, it remains a passion. Mr Chandra starts by establishing his credentials. He grew up in India and he points out that about 40% of all start-ups in Silicon Valley are founded by Indians. (On February 4th an Indian who says "The best code is poetry" was appointed the boss of Microsoft.) Mr Chandra's first book was about the grammatical rules of Sanskrit, an extensive and rigid code not so different ►►



from computer programming. Indeed, he is not the first to note the similarities. Indians can make a strong claim to shaping modern computing, and Indian geeks have long discussed Sanskrit's rules.

It takes a while for "Geek Sublime" to get to its argument. But the wait is worth it. Mr Chandra's description of how computers work is masterly. A line of code in something that resembles English is so far abstracted from the 1s and 0s that computers use that professional programmers have known to admit, "I don't know how computers work!" Mr Chandra lays this out in language a novice can grasp. He goes on to explain how Sanskrit scholars understood aesthetics, choosing ancient texts which, he says, describe "resonance"—a fuzzy concept involving feelings reverberating with

soul—and emotional bonding, which can change with different readers and different readings. In essence, he describes emotions that will be familiar to anybody who has been touched by a work of art.

The proposition in "Geek Sublime" is simple, even if the lengthy explanations required to get there are not. If it is possible to write and appreciate poetry and literature in as rule-bound a language as Sanskrit, surely it is possible to do so in code. Alas, concludes Mr Chandra, it is not. The point of code is to "process and produce logic", whereas "the language of art can fracture grammar and syntax, can fail to transmit meaning but still cause emotion." That is a crucial difference. It may not be the conclusion he hoped to reach, but the pleasure of reading repays the effort. ■

Animals in history

Elephantasia



A FAREWELL RIDE ON JUMBO

DESPITE its title, John Sutherland says his book is not really a biography of Jumbo the elephant. It is a "fantasia". Or rather, an "elephantasia". The word sets the tone. The author, a former professor of English at University College London, is out to entertain—punning, digressing, mixing it up, high and low. But, behind the banter, he has a savage story to tell.

It turns out that Jumbo himself was not quite what he appeared to be. The elephant was trapped as a baby in about 1860 in Abyssinia, by tribesmen paid to supply imperial Europe with exotic animals from the Dark Continent, so-called. Like Jean de

Brunhoff's Babar, a generation or two later, his mother was probably killed. After a spell in Paris, he was bought by London Zoo as a scrofulous, rat-chewed runt, and incidentally saved from the stewpot that awaited other elephants during the siege of Paris in 1870. His English keeper, Matthew Scott, a mysterious man who understood elephant language, restored

him to health, and together with Abraham Bartlett, the zoo's taxidermist superintendent, set about creating brand "Jumbo".

For nearly 20 years Jumbo was marketed as the "children's pet", and was fondly remembered by every child who ever rode his patient back or offered him a currant bun. When in due course a "wife", Alice, was found for him, he became a fully paid-up Englishman, so to speak, a model of sober domesticity (though the pair never mated). Profits of £1,000 a week came rolling in. What no one knew, except the zoo insiders, was that the poor beast was not "Jumbo" at all, but a mad African elephant who passed his nights ramming his head against his stall and grinding his tusks to stubs. Confinement was torture to him, and Scott subdued him with buckets of whisky at best, and at worst with chains, flogging and stabbing. Every morning he and his keeper emerged like Dr Jekyll from Mr Hyde.

As Mr Sutherland says, "Jumbo was always as much a symbol as a pachyderm", and it delights him to strip out the myths from the monster. By 1881, the monster was winning. Jumbo came into season, a "tsunami of testosterone" known as musth, when the penis emerges, tinged with green, in four-foot, s-shaped erections. Hardly family entertainment. The zoo panicked and arranged a quick sale to an American circus impresario, P.T. Barnum.

The public was outraged. England mourned, but the embarrassed zoo stayed silent. Jumbo became John Bull versus Uncle Sam—until America transformed him again, this time into a simple, five-tonne emblem of Yankee "bigness". Finally, death brought transfiguration. Struck down by a high-speed goods train while being loaded into a circus carriage after a hard day's work on September 15th 1885 in Ontario, Canada, Jumbo became Nature itself, defeated by the Machine of Progress. King Kong, anyone? Anna Karenina? "Symbolisms everywhere," says Mr Sutherland, almost with a sigh.

The deaths of elephants in general, and their skinning, disembowelling and butchering, occupy much of this book. There are sickening descriptions of the "executions" of those that ran amok—slow deaths by shooting and hanging, quicker by electrocution. It is as if nothing less will do for exploding the "Jumbo" sham. Mr Sutherland can sometimes toy with his subject, like a learned circus-elephant picking up a sixpence. But the horrors poke through: in his section on Joseph Conrad's "Heart of Darkness", for example, and the ivory trade generally; and, more personally, on Jumbo the alcoholic (Mr Sutherland makes no secret of his own drinking history), and on his feelings as a big-eared, lonely and bullied child, when he first saw Disney's film "Dumbo". Jumbo as autobiography, perhaps? ■

Jumbo: The Unauthorised Biography of a Victorian Sensation. By John Sutherland. Aurum Press; 291 pages; \$23.95 and £14.99

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SINDH COAL AUTHORITY

EXPRESSION OF INTEREST FOUR BLOCKS AT THAR COALFIELD, PAKISTAN

The government of Sindh (GoS), as part of its investment promotion program for coal mining and energy sector intends to invite expression of interest from technically and financially sound companies or consortia for exploitation of coal at block III-A, III-B, IV, VII & VIII of Thar Coal fields for mining, power generation and other uses.

The companies may submit integrated coal to power generation projects or standalone coal mining projects or coal mining with other uses such as coal to liquid and surface gasification with detailed information as enumerated in the "Information Memorandum (IM)", available at www.sindhcoal.gos.pk

Only the companies with at least US\$ 150 million in paid up capital and reserves; having a management pool with a proven track record of successful execution of such projects need to apply.

Preference will be given to the proposals that offer credible plans within challenging timelines; and those which are dovetailed with power project of at least 600 MW. Detailed evaluation criteria are given in the Information Memorandum.

Proposal should reach at the following address by 28th February 2014.

Director General, Sindh Coal Authority

Energy Department, Government of Sindh,
No. 16, Street-E, Phase-V, DHA, Karachi, Pakistan
Tel: 92-21-9925 1507, Fax: 92-21-9925 1038
E-mail : secretary@sindhenergy.gov.pk
: dgscagos@yahoo.com
Website: www.sindhcoal.gos.pk



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For more information, please visit www.uneprisoe.org

Application deadline: **2 March 2014 Central European Time**

Further details: career.dtu.dk

Kingdom of Bahrain

Survey & Land Registration Bureau
Invitation For Pre-Qualification



| REFERENCE | PRE-QUALIFICATION TITLE | CLOSING | OPENING |
|-----------|---|--------------------------------|-----------------------|
| 1/2014 | Development & delivery of data management solution with data migration & 3d data creation | Wed 16th Apr 2014 1:30pm | Thur 17th Apr 2014 |

- Survey & Land Registration Bureau intends to pre-qualify Local and International Firms or Consortia for the above elements of the National 3D Mapping of the Kingdom of Bahrain.
- Pre-qualification Documents for the above may be collected from Sunday 9th February 2014 during office hours from Topographic Survey Directorate, Floor 4, Survey & Land Registration Bureau, Building 517, Rd 1010, Sanabis 0410, or by email application to the contact below. The last day for collection of pre-qualification Documents is Thursday 6th March, 2014
- This Pre-qualification Invitation is according to the provisions of Bahrain Tender Board Law Decree No. (36) of 2002 and its Implementing Regulations issued by Decree No. 37 of 2002 in the Kingdom of Bahrain.
- The completed Pre-qualification Applications shall be submitted in a sealed envelope, marked with the applicable Pre-Qualification Title given above.
- The Pre-qualification Applications must be deposited in the box provided at Bahrain Tender Board Office, 7th Floor, Al Moayyed Tower, Seef District, Kingdom of Bahrain. The Pre-qualification Applications will be opened by Bahrain Tender Board.

Contact for queries regarding the Pre-Qualification is:

Director, Topographic Survey, Survey & Land Registration Bureau,
Tel: +973 17515352 Fax +973 17721057 email: 3d.tender@slrb.gov.bh

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Economic data

% change on year ago

| | Gross domestic product | | | Industrial production | Consumer prices | | Unemployment rate, % | Current-account balance | | Budget balance | Interest rates, % | Currency units, per £ | |
|----------------|------------------------|-------|-------|-----------------------|-----------------|-------|----------------------|-------------------------|----------------|----------------|-----------------------------|-----------------------|----------|
| | latest | qtr* | 2013† | latest | latest | 2013† | | latest 12 months, \$bn | % of GDP 2013† | % of GDP 2013† | 10-year gov't bonds, latest | Feb 5th | year ago |
| United States | +2.7 Q4 | +3.2 | +1.9 | +3.7 Dec | +1.5 Dec | +1.4 | 6.7 Dec | -398.7 Q3 | -2.4 | -4.1 | 2.67 | - | - |
| China | +7.7 Q4 | +7.4 | +7.7 | +9.7 Dec | +2.5 Dec | +2.6 | 4.1 Q4§ | +183.9 Q3 | +1.9 | -1.8 | 4.45§§ | 6.06 | 6.23 |
| Japan | +2.4 Q3 | +1.1 | +1.7 | +7.3 Dec | +1.6 Dec | +0.3 | 3.7 Dec | +37.8 Nov | +0.9 | -8.2 | 0.60 | 101 | 93.4 |
| Britain | +2.8 Q4 | +2.8 | +1.8 | +2.5 Nov | +2.0 Dec | +2.6 | 7.1 Oct†† | -94.9 Q3 | -3.6 | -6.7 | 2.91 | 0.61 | 0.64 |
| Canada | +1.9 Q3 | +2.7 | +1.7 | +2.6 Nov | +1.2 Dec | +1.0 | 7.2 Dec | -59.9 Q3 | -3.1 | -3.0 | 2.39 | 1.11 | 1.00 |
| Euro area | -0.3 Q3 | +0.5 | -0.4 | +3.0 Nov | +0.7 Jan | +1.4 | 12.0 Dec | +279.2 Nov | +2.0 | -2.9 | 1.64 | 0.74 | 0.74 |
| Austria | +0.7 Q3 | +2.5 | +0.4 | -0.9 Nov | +1.9 Dec | +2.1 | 4.9 Dec | +9.6 Q3 | +2.5 | -2.9 | 1.92 | 0.74 | 0.74 |
| Belgium | +0.9 Q4 | +1.7 | +0.2 | +5.9 Nov | +1.0 Dec | +1.2 | 8.4 Dec | -12.6 Sep | -1.3 | -3.0 | 2.27 | 0.74 | 0.74 |
| France | +0.2 Q3 | -0.5 | +0.2 | +1.5 Nov | +0.7 Dec | +1.0 | 10.8 Dec | -42.1 Nov | -1.9 | -4.1 | 2.24 | 0.74 | 0.74 |
| Germany | +0.6 Q3 | +1.3 | +0.5 | +3.5 Nov | +1.3 Jan | +1.6 | 6.8 Jan | +260.0 Nov | +6.8 | +0.1 | 1.64 | 0.74 | 0.74 |
| Greece | -3.0 Q3 | na | -3.6 | -6.1 Nov | -1.7 Dec | -0.9 | 27.8 Oct | +1.3 Nov | +0.8 | -2.2 | 8.10 | 0.74 | 0.74 |
| Italy | -1.8 Q3 | -0.1 | -1.8 | +1.4 Nov | +0.7 Jan | +1.3 | 12.7 Dec | +17.1 Nov | +0.5 | -3.3 | 3.77 | 0.74 | 0.74 |
| Netherlands | -0.4 Q3 | +0.8 | -1.0 | +0.5 Nov | +1.7 Dec | +2.6 | 8.5 Dec | +83.6 Q3 | +9.8 | -3.5 | 1.87 | 0.74 | 0.74 |
| Spain | -0.1 Q4 | +1.2 | -1.2 | +0.2 Nov | +0.3 Dec | +1.5 | 25.8 Dec | +10.3 Nov | +0.8 | -7.1 | 3.71 | 0.74 | 0.74 |
| Czech Republic | -0.3 Q3 | +0.9 | -1.4 | +6.3 Nov | +1.4 Dec | +1.4 | 8.2 Dec§ | -3.4 Q3 | -0.6 | -2.8 | 2.30 | 20.4 | 18.9 |
| Denmark | +0.5 Q3 | +1.5 | +0.4 | -1.5 Nov | +0.8 Dec | +0.8 | 5.6 Dec | +22.7 Nov | +5.8 | -0.3 | 1.68 | 5.51 | 5.51 |
| Hungary | +1.8 Q3 | +3.6 | +0.8 | +5.8 Nov | +0.4 Dec | +1.7 | 9.1 Dec††† | +3.1 Q3 | +2.0 | -3.0 | 5.93 | 229 | 216 |
| Norway | +2.1 Q3 | +2.9 | +1.3 | +0.3 Nov | +2.0 Dec | +2.3 | 3.5 Nov†† | +61.0 Q3 | +12.8 | +13.0 | 2.79 | 6.24 | 5.49 |
| Poland | +1.9 Q3 | na | +1.5 | +6.6 Dec | +0.7 Dec | +1.1 | 13.4 Dec§ | -9.0 Nov | -2.1 | -4.0 | 4.55 | 3.10 | 3.09 |
| Russia | +1.2 Q3 | na | +1.5 | +0.8 Dec | +6.1 Jan | +6.8 | 5.6 Dec§ | +33.0 Q4 | +2.3 | -0.5 | 8.25 | 34.9 | 30.0 |
| Sweden | +0.3 Q3 | +0.3 | +0.8 | +3.5 Nov | +0.1 Dec | +0.1 | 7.5 Dec§ | +34.3 Q3 | +6.1 | -2.0 | 2.22 | 6.53 | 6.34 |
| Switzerland | +1.9 Q3 | +2.1 | +1.9 | +0.7 Q3 | +0.1 Dec | -0.2 | 3.2 Dec | +79.9 Q3 | +11.8 | +0.2 | 0.96 | 0.90 | 0.91 |
| Turkey | +4.4 Q3 | na | +3.9 | +4.6 Nov | +7.8 Jan | +7.5 | 9.7 Oct§ | -60.8 Nov | -7.5 | -1.2 | 9.97 | 2.24 | 1.76 |
| Australia | +2.3 Q3 | +2.3 | +2.4 | +2.7 Q3 | +2.7 Q4 | +2.4 | 5.8 Dec | -51.3 Q3 | -3.0 | -3.1 | 4.02 | 1.12 | 0.96 |
| Hong Kong | +2.9 Q3 | +2.1 | +3.1 | -0.9 Q3 | +4.3 Dec | +4.3 | 3.2 Dec†† | +5.4 Q3 | +1.9 | +1.8 | 2.22 | 7.76 | 7.75 |
| India | +4.8 Q3 | +16.5 | +4.9 | -2.1 Nov | +9.9 Dec | +10.1 | 9.9 2012 | -76.9 Q3 | -3.1 | -5.1 | 8.71 | 62.5 | 53.1 |
| Indonesia | +5.7 Q4 | na | +5.6 | -1.9 Nov | +8.2 Jan | +7.0 | 6.3 Q3§ | -32.1 Q3 | -3.9 | -3.3 | na | 12,193 | 9,676 |
| Malaysia | +5.0 Q3 | na | +4.8 | +4.3 Nov | +3.2 Dec | +2.1 | 3.4 Nov§ | +14.2 Q3 | +5.0 | -4.2 | 4.20 | 3.32 | 3.09 |
| Pakistan | +6.1 2013** | na | +6.1 | +3.4 Nov | +7.9 Jan | +7.7 | 6.2 2013 | -4.0 Q4 | -1.4 | -8.0 | 12.80††† | 105 | 97.8 |
| Singapore | +4.4 Q4 | -2.7 | +3.7 | +6.2 Dec | +1.5 Dec | +2.4 | 1.8 Q4 | +49.8 Q3 | +19.9 | +2.1 | 2.41 | 1.27 | 1.24 |
| South Korea | +4.0 Q4 | +3.7 | +2.7 | +2.6 Dec | +1.1 Jan | +1.3 | 3.0 Dec§ | +70.7 Dec | +4.6 | +0.9 | 3.54 | 1,078 | 1,087 |
| Taiwan | +2.9 Q4 | +10.1 | +1.8 | +5.1 Dec | +0.8 Jan | +0.8 | 4.1 Dec | +56.3 Q3 | +11.5 | -2.3 | 1.62 | 30.3 | 29.5 |
| Thailand | +2.6 Q3 | +5.2 | +3.0 | -6.1 Dec | +1.9 Jan | +2.2 | 0.7 Nov§ | -2.8 Q4 | -1.6 | -3.1 | 3.78 | 32.8 | 29.7 |
| Argentina | +5.5 Q3 | -0.7 | +4.9 | -5.4 Dec | — *** | — | 6.8 Q3§ | -3.5 Q3 | -1.2 | -3.3 | na | 7.96 | 4.98 |
| Brazil | +2.2 Q3 | -1.9 | +2.2 | -2.3 Dec | +5.9 Dec | +6.2 | 4.3 Dec§ | -81.4 Dec | -3.7 | -2.7 | 13.28 | 2.41 | 1.98 |
| Chile | +4.7 Q3 | +5.4 | +4.4 | +2.3 Dec | +3.0 Dec | +1.8 | 5.7 Dec††† | -9.5 Q3 | -3.6 | -1.0 | 5.00 | 559 | 473 |
| Colombia | +5.1 Q3 | +4.5 | +4.3 | +0.2 Nov | +2.1 Jan | +2.0 | 8.4 Dec§ | -12.6 Q3 | -3.4 | -0.8 | 7.21 | 2,052 | 1,792 |
| Mexico | +1.3 Q3 | +3.4 | +1.2 | -1.4 Nov | +4.0 Dec | +3.8 | 4.8 Dec | -24.9 Q3 | -1.6 | -2.5 | 7.75 | 13.4 | 12.6 |
| Venezuela | +1.1 Q3 | -0.8 | +1.6 | +0.8 Sep | +56.2 Dec | +40.6 | 5.6 Dec§ | +6.9 Q3 | +3.2 | -10.4 | 14.82 | 6.29 | 4.29 |
| Egypt | +1.0 Q3 | na | +2.0 | -16.7 Nov | +11.7 Dec | +8.5 | 13.4 Q3§ | -4.5 Q3 | -2.5 | -13.7 | na | 6.96 | 6.70 |
| Israel | +2.4 Q3 | +2.3 | +3.2 | -4.1 Nov | +1.8 Dec | +1.5 | 5.8 Dec | +3.3 Q3 | +1.6 | -3.2 | 3.69 | 3.54 | 3.69 |
| Saudi Arabia | +3.8 2013 | na | +2.9 | na | +3.0 Dec | +3.5 | 5.6 2013 | +139.3 Q3 | +18.0 | +6.7 | na | 3.75 | 3.75 |
| South Africa | +1.8 Q3 | +0.7 | +1.9 | +0.4 Nov | +5.4 Dec | +5.8 | 24.7 Q3§ | -22.1 Q3 | -6.5 | -4.8 | 8.59 | 11.2 | 8.86 |

Source: Haver Analytics. **% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. †New series. **Year ending June. ††Latest 3 months. †††3-month moving average. §§5-year yield ***Official number not reliable; The State Street PriceStats Inflation Index, December 23.38%; year ago 25.98% †††Dollar-denominated bonds.

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Markets

| | Index Feb 5th | % change on | | |
|---------------------------|------------------|-------------|---|----------------|
| | | one week | Dec 31st 2012 in local currency terms | in \$ terms |
| United States (DJIA) | 15,440.2 | -1.9 | +17.8 | +17.8 |
| China (SSEA) | 2,127.6 | -0.8 | -10.5 | -7.9 |
| Japan (Nikkei 225) | 14,180.4 | -7.8 | +36.4 | +16.6 |
| Britain (FTSE 100) | 6,457.9 | -1.3 | +9.5 | +9.8 |
| Canada (S&P TSX) | 13,559.7 | -0.6 | +9.1 | -2.2 |
| Euro area (FTSE Euro 100) | 974.9 | -1.7 | +13.8 | +16.8 |
| Euro area (EURO STOXX 50) | 2,962.5 | -1.6 | +12.4 | +15.4 |
| Austria (ATX) | 2,542.3 | -2.2 | +5.9 | +8.7 |
| Belgium (Bel 20) | 2,847.3 | -1.2 | +15.0 | +18.0 |
| France (CAC 40) | 4,117.8 | -0.9 | +13.1 | +16.1 |
| Germany (DAX)* | 9,116.3 | -2.4 | +19.8 | +22.9 |
| Greece (Athex Comp) | 1,240.1 | +10.1 | +36.6 | +40.2 |
| Italy (FTSE/MIB) | 19,069.6 | -1.4 | +17.2 | +20.3 |
| Netherlands (AEX) | 382.7 | -1.7 | +11.7 | +14.6 |
| Spain (Madrid SE) | 998.0 | -1.2 | +21.0 | +24.2 |
| Czech Republic (PX) | 985.2 | -0.5 | -5.1 | -11.3 |
| Denmark (OMXCX) | 596.2 | +4.0 | +31.7 | +35.2 |
| Hungary (BUX) | 18,339.3 | -1.1 | +0.9 | -2.5 |
| Norway (OSEAX) | 587.9 | -0.7 | +19.9 | +6.9 |
| Poland (WIG) | 51,076.1 | +1.9 | +7.6 | +7.6 |
| Russia (RTS, \$ terms) | 1,317.5 | +0.7 | -1.5 | -13.7 |
| Sweden (OMXS30) | 1,292.5 | -1.3 | +17.0 | +16.5 |
| Switzerland (SMI) | 8,113.0 | -0.3 | +18.9 | +20.5 |
| Turkey (BIST) | 62,442.5 | +0.6 | -20.2 | -36.4 |
| Australia (All Ord.) | 5,088.7 | -2.9 | +9.1 | -6.5 |
| Hong Kong (Hang Seng) | 21,269.4 | -3.9 | -6.1 | -6.3 |
| India (BSE) | 20,261.0 | -1.9 | +4.3 | -8.6 |
| Indonesia (JSX) | 4,384.3 | -0.7 | +1.6 | -19.7 |
| Malaysia (KLSE) | 1,785.9 | -0.2 | +5.7 | -2.6 |
| Pakistan (KSE) | 26,751.5 | +0.6 | +58.2 | +45.9 |
| Singapore (STI) | 2,960.1 | -2.9 | -6.5 | -10.0 |
| South Korea (KOSPI) | 1,891.3 | -2.6 | -5.3 | -5.9 |
| Taiwan (TWI) | 8,264.5 | -2.3 | +7.3 | +2.8 |
| Thailand (SET) | 1,280.3 | +0.7 | -8.0 | -14.1 |
| Argentina (MERV) | 5,924.1 | +4.7 | +108 | +28.3 |
| Brazil (BVSP) | 46,624.4 | -2.0 | -23.5 | -35.0 |
| Chile (IGPA) | 17,025.2 | +0.5 | -19.2 | -30.8 |
| Colombia (IGBC) | 12,025.2 | +0.6 | -18.3 | -29.6 |
| Mexico (IPC) | 39,880.9 | -2.0 | -8.8 | -11.4 |
| Venezuela (IBC) | 2,818.9 | +0.8 | +498 | na |
| Egypt (Case 30) | 7,343.5 | -0.4 | +34.4 | +22.9 |
| Israel (TA-100) | 1,199.5 | -0.3 | +14.3 | +20.6 |
| Saudi Arabia (Tadawul) | 8,792.8 | +1.0 | +29.3 | +29.3 |
| South Africa (JSE AS) | 44,477.2 | -2.4 | +13.3 | -13.9 |

The Economist poll of forecasters, February averages (previous month's, if changed)

| | Real GDP, % change | | | | Consumer prices | | Current account | |
|---------------|--------------------|---------|-------------|-----------|-----------------|-----------|-----------------|-------------|
| | Low/high range | | average | | % change | | % of GDP | |
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| Australia | 2.2/2.7 | 2.0/3.0 | 2.4 | 2.7 (2.8) | 2.4 | 2.6 | -3.0 (-2.8) | -3.4 (-3.0) |
| Belgium | nil/0.2 | 1.0/1.4 | 0.2 (0.1) | 1.2 (1.1) | 1.2 | 1.3 | -1.3 (-1.5) | -0.8 (-1.3) |
| Britain | 1.4/1.9 | 2.4/3.3 | 1.8 (1.5) | 2.7 | 2.6 | 2.2 (2.4) | -3.6 (-3.7) | -3.1 (-3.2) |
| Canada | 1.6/1.8 | 2.0/2.8 | 1.7 | 2.4 (2.3) | 1.0 | 1.5 | -3.1 (-3.0) | -2.9 |
| France | nil/0.2 | 0.4/1.3 | 0.2 | 0.7 (0.8) | 1.0 | 1.2 | -1.9 | -1.8 |
| Germany | 0.4/0.6 | 1.4/2.0 | 0.5 | 1.7 | 1.6 (1.5) | 1.5 | 6.8 (6.9) | 6.5 (6.7) |
| Italy | -1.9/-1.7 | 0.2/0.8 | -1.8 | 0.4 | 1.3 | 0.9 | 0.5 | 0.8 (0.7) |
| Japan | 1.5/1.9 | 0.7/2.6 | 1.7 | 1.6 (1.5) | 0.3 (0.2) | 2.3 (2.1) | 0.9 | 1.1 (1.2) |
| Netherlands | -1.3/-0.9 | 0.1/1.1 | -1.0 (-1.1) | 0.6 (0.5) | 2.6 (2.4) | 1.3 (1.6) | 9.8 (9.5) | 9.9 |
| Spain | -1.3/-1.2 | nil/1.0 | -1.2 (-1.3) | 0.6 (0.5) | 1.5 | 0.5 (0.6) | 0.8 | 1.5 (1.4) |
| Sweden | nil/1.2 | 1.2/2.8 | 0.8 (0.9) | 2.2 | 0.1 | 1.1 (0.9) | 6.1 (6.0) | 5.9 (5.8) |
| Switzerland | 1.7/2.0 | 1.7/2.4 | 1.9 | 2.0 | -0.2 | 0.5 | 11.8 (10.9) | 11.8 (11.1) |
| United States | 1.8/2.0 | 2.4/3.5 | 1.9 (1.8) | 2.9 (2.7) | 1.4 (1.5) | 1.7 (1.6) | -2.4 (-2.5) | -2.2 (-2.4) |
| Euro area | -0.5/-0.1 | 0.6/1.2 | -0.4 | 1.0 | 1.4 | 1.0 (1.1) | 2.0 | 1.9 (2.0) |

Sources: Bank of America, BNP Paribas, Citigroup, Commerzbank, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, ING, JPMorgan Chase, KBC Bank, Morgan Stanley, RBC, RBS, Schroders, Scotia Capital, Société Générale, Standard Chartered, UBS

Other markets

| | Index Feb 5th | % change on | | |
|---------------------------------|----------------------|-------------|---|----------------|
| | | one week | Dec 31st 2012 in local currency terms | in \$ terms |
| United States (S&P 500) | 1,751.6 | -1.3 | +22.8 | +22.8 |
| United States (NAScomp) | 4,011.6 | -1.0 | +32.9 | +32.9 |
| China (SSEB, \$ terms) | 246.3 | -0.7 | -2.2 | +0.6 |
| Japan (Topix) | 1,162.6 | -7.4 | +35.2 | +15.5 |
| Europe (FTSEurofirst 300) | 1,271.8 | -1.4 | +12.2 | +15.1 |
| World, dev'd (MSCI) | 1,572.4 | -2.0 | +17.5 | +17.5 |
| Emerging markets (MSCI) | 916.6 | -2.1 | -13.1 | -13.1 |
| World, all (MSCI) | 385.3 | -2.0 | +13.4 | +13.4 |
| World bonds (Citigroup) | 922.6 | +0.3 | -2.3 | -2.3 |
| EMBI+ (JPMorgan) | 646.8 | +0.2 | -9.0 | -9.0 |
| Hedge funds (HFRX) | 1,214.7 ⁸ | -0.6 | +5.8 | +5.8 |
| Volatility, US (VIX) | 20.0 | +17.4 | +18.0 (levels) | |
| CDSs, Eur (iTRAXX) [†] | 82.2 | +0.7 | -30.5 | -28.7 |
| CDSs, N Am (CDX) [†] | 72.8 | +0.4 | -24.0 | -24.0 |
| Carbon trading (EU ETS) € | 6.2 | +10.2 | -8.3 | -5.9 |

Sources: Markit; Thomson Reuters. ⁸Total return index. [†]Credit-default-swap spreads, basis points. ⁸Feb 4th

Indicators for more countries and additional series, go to: Economist.com/indicators

The Economist commodity-price index

2005=100

2005=100

| | | | % change on | |
|-------------------------|----------|----------|-------------|----------|
| | Jan 28th | Feb 4th* | one month | one year |
| Dollar Index | | | | |
| All Items | 162.3 | 163.6 | +0.3 | -13.9 |
| Food | 180.0 | 184.6 | +2.7 | -13.1 |
| Industrials | | | | |
| All | 143.9 | 141.7 | -2.8 | -15.0 |
| Nfa† | 152.0 | 150.6 | -2.2 | -12.3 |
| Metals | 140.4 | 138.0 | -3.1 | -16.2 |
| Sterling Index | | | | |
| All items | 178.0 | 182.6 | +0.9 | -17.2 |
| Euro Index | | | | |
| All items | 147.7 | 150.5 | +1.0 | -13.8 |
| Gold | | | | |
| \$ per oz | 1,253.0 | 1,251.2 | +2.0 | -25.0 |
| West Texas Intermediate | | | | |
| \$ per barrel | 97.3 | 97.4 | +3.8 | +0.8 |

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curt; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional

[†]Non-food agriculturals.

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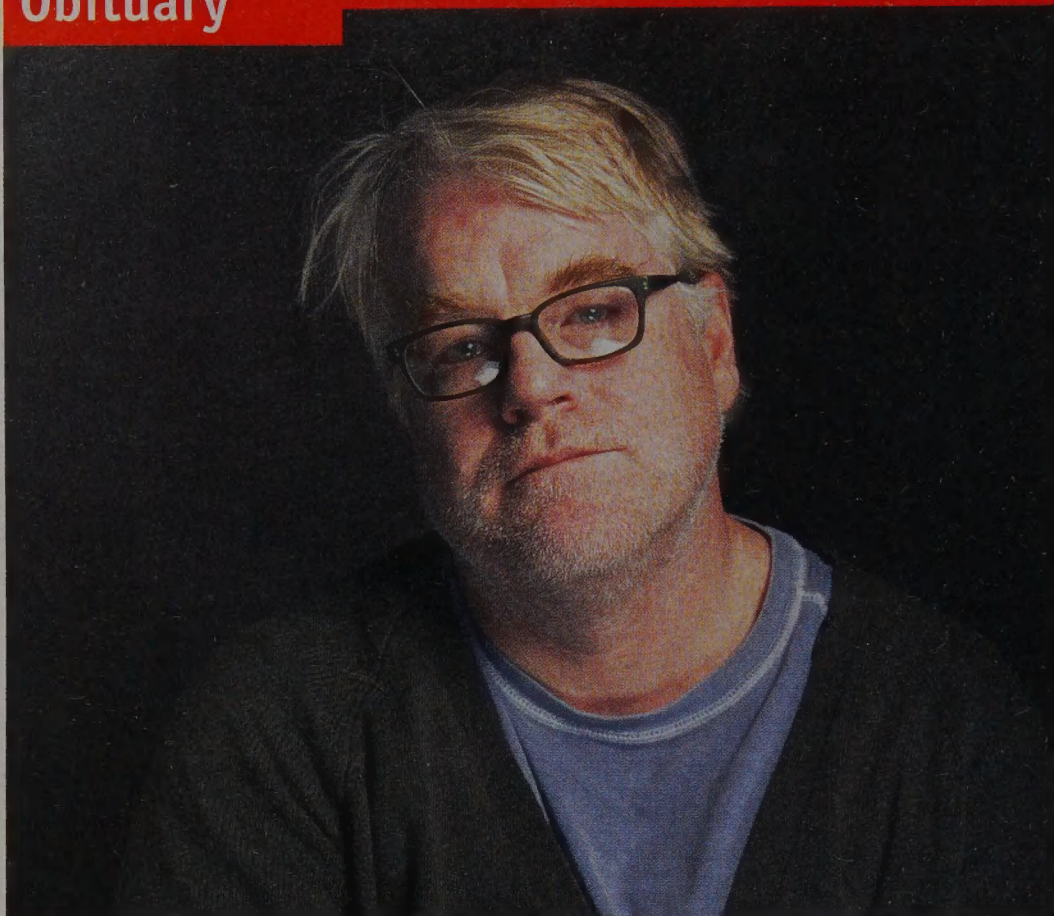
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Philip Seymour Hoffman

Philip Seymour Hoffman, actor, died on February 2nd, aged 46

EACH time an interviewer sat him down—fair hair messed in a squiff, belly wobbling under his T-shirt, mouth still yawning—they wanted to find out who he was. What he was doing, what he had done, who he was with. It struck Philip Seymour Hoffman that they didn't need to know any of those things. This urge to impose a structure on chaos—it might be the wrong structure. They'd be more surprised by his work if they didn't try.

After all, he seemed to have been everyone and everything. A rich, sneering oaf called Freddie in "The Talented Mr Ripley", savagely plinking the keys of a priceless piano, and jumping out of his little car to kiss the air and shout, "God, don't you just want to fuck every woman you see just once?" The solemn, dough-faced Father Flynn in "Doubt" (2008), smoothly beating away the nuns' insinuation that he had abused an altar boy. In "Boogie Nights" (1997) the clumsy, child-like Scotty J, a gay boom-operator in love with a porn star, who begged him to ride in his new red Corvette and pleaded to be allowed to kiss him on the mouth, but was rebuffed on both counts and sat in the car crying. And in "The Master" (2012) red-faced and military-moustached, a cult-leader who softly and repeatedly asked the squirming Joaquin Phoenix, "Do you believe that God

will save you from your own ridiculousness?" and could then explode into obscenity as if the devil was in him.

"The Master" was more or less a lead role, but that was unusual. He was too pudgy to look romantic or heroic. He made his name as a player of little parts, someone the director could bring in to provide a jolt of life, because in two minutes' screen time he could steal a film. He did it in "Along Came Polly", as Ben Stiller's crude friend, shooting and missing basketball hoops and squeezing extra grease onto his slice of pizza. Even more skilfully, and briefly, he did it as the oily PA in "The Big Lebowski", fawningly showing off the great man's awards: "This picture was taken when Mrs Reagan was First Lady of the nation, yes yes, not of California."

Since he could make everyone laugh and cringe like this, interviewers would ask him if he had fun. No, he didn't. Acting was hard, concentrated work, "like lugging weights upstairs with your head" (or, when he came on stage as Willy Loman in "Death of a Salesman", staggering under sample cases). Well, perhaps it had been fun at the start, when his mother prompted him to fall in love with theatre, and he had gone off to drama school at New York University feeling the world was his. He stacked shelves for a living until "Scent of a

Woman" came up in 1992, the first and youngest of his boorish-friend roles.

He was asked how he prepared. That would trigger a hand through the messy hair and mumbles of uncertainty. He began by wanting to explore the character, but it wasn't good unless he got into some "real uncomfortable" place, where he would start to move and talk unconsciously like them. For "Capote", for which he won an Oscar in 2006, he locked himself away for months to study Capote's works, his baby voice and self-regarding walk. Then he added little things: a lightly twitching upper lip, a languorous scratching of the parting of his hair, and a way of holding his cigarette as delicately as a flower.

His characters were often sweaty and sloppy, but then again they could be, like Capote, super-neat. He did malice and self-loathing like no one else; he could do hurting and shy. His speciality was to add grace-notes to trash. Whether ordinary Joe or monster, each character shivered with complexity. But not one of them, he said, was himself. Not one of them was the man the neighbours saw sitting on the scaffolding of his New York building, reading, in his socks. Once the film was wrapped, it was goodbye. Even the tongue-tied, shambling, middle-aged lead in the first film he directed, "Jack Goes Boating" (2010)—who learned to swim to get off with a girl, and wore his woolly hat indoors—was not him. But Jack had some of his attitude: the need to keep reinventing, moving on to the next thing. At times he seemed to be popping up in almost every American film.

At the controls

The character that stayed with him and the film that most impressed him was "Synecdoche, New York" (2008). He played a theatre director—obsessed with death, and ageing as he never did—who reconstructed New York actual-size and, for decades, controlled the doings of the inhabitants. Just to control his own life would be great, he often said. It was what he spent the most time trying to do. To find the storyline and the path through. To go to sleep each night without profound regrets, when life kept throwing things at him.

At drama school, wanting it all in every sense, he had binged on drink and drugs to the point where he feared they would kill him. At 22, he went into rehab. He stayed clean for 23 years, but seldom without ferocious craving and the feeling that he could slip back there. Last year he checked into rehab again, despite an apparently happy life with Mimi O'Donnell and the children who, for some years, had given a structure to the chaos. Americans did not seem to pass judgment on the frightening amounts of heroin found around him when he died. They just felt, as many others did, deprived of a man they still wanted to get to know. ■



**DEBT MANAGEMENT OFFICE
NIGERIA**

**REQUEST FOR PROPOSAL FOR BOOKRUNNERS FOR A DIASPORA BOND TO BE ISSUED IN THE
INTERNATIONAL CAPITAL MARKET BY THE FEDERAL REPUBLIC OF NIGERIA**

1.0 Introduction

The Debt Management Office (DMO), on behalf of the Federal Republic of Nigeria ("FRN") seeks to issue a Diaspora Bond ("Diaspora Bond" or "Transaction") for an amount of about USD100 million to raise funds from Nigerians in Diaspora (the "Diaspora") for the purpose of financing capital projects while also, providing an opportunity for the Diaspora to participate in the development of Nigeria.

For this purpose, the DMO wishes to appoint international and Nigerian bank(s) to act as Bookrunners for the Offering. The Bookrunners will be appointed separately by the FRN but will be required to work together and coordinate with the already appointed Financial and Legal Advisers to ensure a successful Offering.

The intention is to register the proposed Diaspora Bond with the United States of America's Securities and Exchange Commission and to apply for the Diaspora Bond to be admitted to trading on a major European Stock Exchange.

2.0 Scope of Work

The Bookrunners shall be expected to render the following services:

- Prepare the Marketing and Distribution Strategies for the Transaction which would include investor locations, best means for reaching the investors, as well as timing for the Issuance;
- Market the Diaspora Bond to target investors;
- Secure wide subscription across various investor groups within relevant markets;
- Collaborate with the DMO and the Advisers involved in the Transaction to ensure a successful issuance;
- Launch and Price the Transaction;
- Provide the DMO and the Financial Advisers with regular updates on the demand received and the orders collected from investors;
- Actively manage the Bookbuilding process;
- Manage the settlement and closing mechanics for the Transaction;
- Provide post-issuance support and liquidity for the Diaspora Bond in the secondary market;
- Ensure compliance with all applicable laws for marketing and offering the Diaspora Bond in the relevant jurisdictions; and,
- Provide any other service that may be required for the successful issuance of the Diaspora Bond.

3.0 Request for Proposal Procedures

Proposals must be prepared in the English Language and Bids are to be submitted separately by interested Bidders. Joint Bids would not be allowed. All Bidders are to further note the following:

- The responses to this Request For Proposal should be submitted in two (2) separate sealed envelopes, as set out below:
 - The Technical Bid which should be submitted in seven (7) hard copies;
 - The Financial Bid which should be submitted in seven (7) hard copies;
- Electronic submissions will not be accepted;
- Bidders should ensure that their Bids are duly acknowledged by the DMO at the time of submission;
- All Bids are to be submitted to the following address:

**The Director General,
Debt Management Office,
The Presidency,
First Floor, NDIC Building,
Plot 447/448, Constitution Avenue,
Central Business District,
Abuja, Nigeria.**

- All Bids must be received latest by 12.00 noon (Nigeria Time) on **March 10, 2014**. The DMO reserves the right to reject any proposal not received by this time and in the form prescribed by this Request For Proposal;
- The Technical Bids will be opened at 1.00 p.m. on **March 10, 2014**. In accordance with the provisions of the Public Procurement Act, 2007. Bidders are encouraged to be represented at the opening of Bids;
- Bids that do not meet the Requirements specified in Section 4.0 shall be rejected;
- All Bidders will be notified within (2) working days of the Bid Opening through electronic or physical mails if their Bids were accepted for further evaluation or rejected;
- Bidders whose Bids are accepted for further evaluation will be invited for Interviews at a date and venue to be advised by the DMO;
- Bidders who are unsuccessful after the evaluation of their Technical Bids will be advised within two (2) working days of the evaluation;
- The Financial Bids will be opened once a shortlist of prospective Bookrunners has been compiled on the basis of the evaluation of Technical Bids and the Interviews; and,
- The Financial Bids of all the unsuccessful Bidders will be returned un-opened to their respective addresses.

4.0 Requirements for the Technical and Financial Bids
Technical Bid

A. All Technical Bids should contain the following in the minimum:

- Company profile, including registered address and contact email address;
- Evidence of registration with the relevant regulatory or supervisory authorities in the United Kingdom, United States of America and any other jurisdiction.

B. In addition, Bids from International and Nigerian Banks should include:

i. For the International Banks:

- A list of major cities in Europe, the United States of America and any other jurisdiction with a diaspora population where they are present and/or have distribution capabilities;
- Evidence of regulatory approvals to sell securities to both retail and institutional investors in relevant jurisdictions. This includes, for the United States: the United States Securities and Exchange Commission and for the United Kingdom: the Financial Conduct Authority and Prudential Regulation Authority, as applicable; and
- Minimum of two investment grade ratings from internationally recognised rating agencies.

ii. For the Nigerian Banks:

- List of countries other than Nigeria with a diaspora population where the entity is present, indicating if it has full-fledged operations or Representative Offices;
- Evidence of the relevant Bank's (i.e. at the group and/or bank, subsidiary or affiliate level as applicable) regulatory approvals to sell securities to both retail and institutional investors in relevant jurisdictions. This includes, for the United States: the United States Securities and Exchange Commission or for the United Kingdom: the Financial Conduct Authority and Prudential Regulation Authority, as applicable;
- Minimum of two credit ratings not below BB- or its equivalent from internationally recognised rating agencies or rating agencies approved by the Nigerian Securities and Exchange Commission;
- Registration and experience with an International Money Transfer Agency such as Western Union Money Transfer and Moneygram Money Transfer; and,
- Evidence of existing structures and data on Private Banking and Wealth Management operations would be an added advantage.

C. Verifiable track record and distribution capabilities, including, where applicable:

- Information on previous instances in which it acted as bookrunner on internationally issued Emerging Markets sovereign bonds;
- Information on previous instances in which it was involved in the distribution of securities to retail investors;
- Details of the size and scope of the firm's distribution strengths (sales force, branch offices and trading by number and relevant location);
- Evidence of knowledge of the Nigerian Diaspora;
- Trading volumes in Emerging Markets sovereign bonds.

D. An indicative Marketing Strategy and Plan in not more than five (5) pages (Power Point) showing how the bank would seek to ensure successful distribution of the Diaspora Bond in a timely manner; and,

E. Any other evidence which it believes demonstrates its ability to successfully sell and distribute the Diaspora Bond.

Financial Bid

Bidders should provide a quote for the Bookrunner Fees, expressed as a percentage of the total Offer Size, along with a list of other applicable Expenses that they believe will be required to carry out the successful Issuance of the Diaspora Bond. The Fees will be subject to all applicable Nigerian taxes. Further, the international bank should quote in United States Dollars and the Nigerian Bank in the Nigerian Currency (Naira).

Bidders should note that:

- The cost for any party that may be engaged by them towards the discharge of their function as Bookrunner shall be for their own account; and,
- The actual Fees and Expenses to be paid may be subject to negotiation at the discretion of the DMO.

5.0 Enquiries

Prospective Bidders that require clarification on any part of this Request for Proposal may wish to direct requests to: enquiries@dmo.gov.ng

IMPORTANT NOTICES

- Nothing in this advertisement shall be construed to be a commitment on the part of the DMO to appoint Bookrunners or to issue Diaspora Bonds; nor shall it entitle any Bidder to make any claim whatsoever and seek indemnity from the DMO by virtue of the Bidder having responded to this Request For Proposal.
- No costs associated with responding to this Request for Proposal or attending Interviews will be reimbursed.
- The information contained herein shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Diaspora Bonds referred to herein in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, exemption from registration or qualification under the securities laws of any such jurisdiction.

**Debt Management Office
The Presidency,
Plot 447/448, Constitution Avenue,
Central Business District,
P.M.B. 532 Garki, Abuja, Nigeria.
Email: enquiries@dmo.gov.ng
Website: www.dmo.gov.ng**



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